Australian Government

Australian Reinsurance Pool Corporation

ARPC 2015 2016 ANNUAL REPORT

ARPC 2015 2016

ANNUAL REPORT

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Australian Government

Australian Reinsurance Pool Corporation

21 September 2016

The Hon Kelly O'Dwyer MP
Minister for Revenue and Financial Services
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting to you the annual report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2016. The report has been prepared under section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and in accordance with the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).

Yours sincerely

Signature supplied

Joan Fitzpatrick BA(Hons), LLB, ANZIIF (Fellow), CIP, GAICD
Chair

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Overview

REPORT FROM THE CHAIR

In 2015-16, Australian Reinsurance Pool Corporation continued its critical role as reinsurer to Australia's commercial property insurers, for Declared Terrorist Incidents (DTIs). In so doing, we fulfilled our purpose which is to protect Australia from the economic losses caused by terrorism catastrophe.

It was a year of significant change and transformation for ARPC which included:

- Support for and now implementation of the recommendations of the three-year review of the *Terrorism Insurance Act 2003 (TI Act)* undertaken by the Treasury (the triennial review). The Review report was published by the Treasury in December 2015;
- Providing expert input to the *Northern Australia Insurance Premiums Taskforce* on the option for a storm reinsurance pool. The Taskforce Report was published by the Treasury in March 2016; and
- A merger of and relocation of all operations to a new Sydney office. Our Canberra office closed in September 2015 and our new Sydney office opened in December 2015 after a short period operating from our old Sydney premises.

2015-16 was marked by a sharp rise in terrorism threats against Western countries with major terrorist incidents occurring in the United States, France, UK, Belgium, Germany, Spain, Canada and the Middle East.

In Australia, since the national terrorism threat level was raised on 12 September 2014, there have been three attacks and nine major counter-terrorism disruption operations in response to imminent attack planning. Over the same period, 43 people have been charged with terrorism-related offences. That's more than one-third of all terrorism related charges since 2001. In addition, the Australian Security Intelligence Organisation has over 400 high-priority counter-terrorism investigations underway. The Australian Government has also committed $1.2 billion in additional funding for national security, including funding for security agencies and specialist terrorism preventive task forces.

At the time of writing, Australia's national terrorism threat level remained 'probable', which means credible intelligence, assessed by our security agencies, indicates individuals or groups have developed the intent and capability to conduct a terrorist attack in Australia.

ARPC's loss modelling shows probable maximum insured losses would exceed the reinsurance capacity of the private insurance market, resulting in market failure. Inadequate private insurance capacity to cover all Australian commercial assets is an ongoing problem, which ARPC fully addresses.

ARPC has actively sought and created opportunities to raise awareness of our role, purpose and coverage among insurers, reinsurers, property groups, government agencies, business groups and associations and at conferences.

JOAN FITZPATRICK, CHAIR

ARPC performed better than plan across all financial performance measures, delivering premium revenue of $126.2 million against $122.0 million budgeted (+3.4 per cent versus budget), and net assets of $503.7 million against budget of $496.0 million. Our net assets were 6.3 per cent lower than $537.7 million in the previous year, owing to dividends paid to government.

Our major project to relocate the Canberra and Sydney operations to a new Sydney office was achieved on time and better than budget.

Terrorism insurance pools similar to ARPC exist in all major economies and are recognised as the most effective way to provide cost effective terrorism reinsurance to the commercial insurance sector.

ARPC is considered a best practice global pool, owing to our deep experience with blast and plume loss modelling, coupled with our strategic use of retrocession reinsurance, where ARPC purchases pooled reinsurance cover from Australian and global markets.

ARPC interacts with other terrorism pools through the Organisation for Economic Cooperation and Development (OECD). The OECD has a High-Level Advisory Board for the Financial Management of Large Scale Catastrophe through which ARPC CEO Dr Chris Wallace participates as an Advisory Board member. The OECD has maintained a long-term focus on terrorism reinsurance pools. Next year, it will focus on cyber risk and cyber terrorism.

ARPC and OECD are collaborating on the *ARPC-OECD Global Terrorism Risk Insurance Conference*, hosted by ARPC in Canberra on 6 and 7 October 2016. This event will bring together more than 120 senior executives from government, insurance, reinsurance and related industries from OECD countries to discuss the latest developments in terrorism insurance.

Expansion of the scheme – the 2015 Triennial Review

The 2015 Triennial Review was undertaken by Treasury and consultants to Treasury, and completed in the early part of the year. The Treasury is responsible for undertaking a review of the TI Act and preparing a report for our Reponsible Minister, the Minister for Revenue and Financial Services.

More detail on the 2015 Triennial Review is set out in Chapter 2 of this report. However, ARPC is currently focused on these key recommendations:

- expanding the scheme to include high value residential buildings with sums insured above $50 million;
- expanding the scheme to include more mixed use commercial and residential buildings by lowering the threshold from 50 per cent commercial use to 20 per cent commercial use; and
- fully covering DTI events of a biochemical nature by clarifying legislation, such that a DTI event will over-ride pollution and contamination exclusions in policies, together with terrorism exclusion clauses.
- Another (already implemented) recommendation was to adjust premium pricing to support the scheme remaining financially sustainable. Recommendations also propose adjustments to insurer retentions for financial sustainability reasons. ARPC is working with the Treasury on the detail of those changes.

Natural catastrophe risks – storm reinsurance

During the year, I was appointed by the Minister to participate as a Member of the Reference Panel to the *Northern Australia Insurance Premiums Taskforce* regarding insurance affordability concerns related to cyclone risk exposure. More detail on the taskforce report, published on 4 March 2016, is contained in Chapter 2 of this report.

One option the Taskforce considered was the establishment of a government-backed cyclone reinsurance pool, similar to ARPC, which could subsidise and reduce premiums to policyholders who face regular cyclone losses.

In ARPC's own submission to the Taskforce we advised that:

- ARPC does not advocate for or against a pool.
- ARPC exists to address market failure where there is insufficient insurance or reinsurance capacity or unaffordable insurance or reinsurance.
- Should the government resolve to establish a pool, ARPC would work with insurers/reinsurers to structure it as efficiently and effectively as possible. We would look to support the market through subsidised reinsurance and the use of retrocession reinsurance, but we would not seek to replace the market.
- ARPC has a guarantee of solvency from the Federal Government. This could be used in the event of terrorism or cyclones (both extreme catastrophes). ARPC also has residual powers in our regulations for Functions of Corporation for insurance affordability.

- ARPC has specialised property reinsurance skills and systems capability to extend to other reinsured perils for catastrophe.
- ARPC has reinsurance agreements with almost all Australian commercial property insurers, plus many foreign insurers. We have 235 insurer customers and 61 retrocession reinsurers. Therefore, our existing network would provide us with a high level of engagement with insurers and reinsurers regarding any cyclone reinsurance pool.
- Our submission also advised that we did not expect a cyclone reinsurance pool to be self-funding for several years and that it was important to hold funds separately from the terrorism reinsurance pool. Finally, our submission said any scheme should be voluntary for insurers, as is the case with the terrorism reinsurance pool.
- At the Insurance Council of Australia's Annual Forum on 4 March 2016, the Minister addressed the Taskforce final report and indicated that the Federal Government is continuing to carefully consider the Taskforce's report and expects to respond in the coming months.

Relocation and transformation

An important milestone was the implementation of the ARPC Board's decision to relocate ARPC's operations to Sydney to be in the same geographic market as most of our stakeholders. The move has also enabled recruitment of new general insurance and reinsurance skills. Additionally, we were able to work with the Treasury to implement the latest available virtualisation of computer technology, so we can operate from any location in the future.

Our financial performance

The report from our Chief Executive describes our financial performance in more detail, but a key concern for the ARPC Board remains our financial sustainability. Although ARPC was able to report a positive operating result of $23.5 million for the year, ARPC finished 2015-16 in a weaker financial position than the previous year, with net assets shrinking from $538 million to $504 million.

The reduction in net assets is owing to ongoing significant fee and dividend payments to the Federal Government, which amounted to $112.5 million in the period. In total, between FY2012-13 and FY 2017-18, ARPC will have paid $0.8 billion in dividend and fee payments to the Government.

To remain financially sustainable, we have maintained a lower-than-desired retrocession purchasing program and cut operating expenses. Notwithstanding these expense savings, ARPC still experienced a reduction in net assets. At the current level of fee and dividend payments, our outlook shows continuing reductions in net assets over the next four years.

Looking ahead

Whilst the Triennial Review recommended scheme improvements, there are further issues to address. One concern is the scheme's exclusion of computer crime, which may mean that large, physically destructive cyber terrorism events are not covered by the scheme. This issue has been raised in an ARPC white paper and (including cyber risk) is an ongoing focus for ARPC.

There is also an opportunity for ARPC to research, promote and potentially complement the good work currently being undertaken by major property sector stakeholders on terrorism risk mitigation. The Board would like to see ARPC collaborate with the property sector, while developing an increased focus on risk mitigation over the next two years.

Our people

I would like to express my sincere thanks to the ARPC Board, CEO Dr Chris Wallace, the senior executive team and our staff for their commitment and hard work. In what was a challenging year, we bade farewell to our Canberra colleagues and welcomed new Sydney-based staff.

The term of Board Member, Ms Marian Micalizzi, was completed on 30 June 2016. Marian was appointed as an inaugural Board Member on 1 July 2003, at the time of ARPC's inception, and was ARPC's longest serving Board member. Marian has seen the organisation evolve over the past 13 years and helped ARPC to become the strong, forward looking organisation it is today. I would like to thank Marian for her valuable contribution and I wish her all the best for the future.

ARPC is well positioned to respond swiftly and effectively in response to a DTI and remains focused on its primary purpose - to deliver reinsurance support to our cedants for the benefit of the Australian economy.

On behalf of ARPC, I am pleased to present the 2015-16 annual report, which has been signed for and on behalf of the members of the Board in accordance with a resolution of the Board.

Signature Supplied

Joan Fitzpatrick BA (Hons), LLB, ANZIIF (Fellow), CIP, GAICD
Chair

21 September 2016

REPORT FROM THE CHIEF EXECUTIVE

2015-16 was a watershed year for ARPC. We relocated our operations to Sydney, farewelled departing Canberra colleagues and welcomed new Sydney colleagues. We actioned a Ministerial Direction for the first change to our scheme premium rates since inception, a key recommendation of the 2015 Triennial Review of the *Terrorism Insurance Act 2003*. Work also began on implementing the remaining review recommendations which extend the remit of the scheme, endorse its financial sustainability and support our stakeholders.

ARPC staff and key stakeholders also undertook a detailed training exercise to simulate and respond to a DTI.

Our role

ARPC protects Australia from economic losses to commercial property caused by terrorism catastrophe.

We do this by using our expertise to provide cost effective reinsurance to support the economic resilience of the nation.

While the terrorism reinsurance scheme operated by ARPC is voluntary, the vast majority of insurers in Australia participate. We are funded by premiums from our cedants.

PROTECT THE AUSTRALIAN ECONOMY

$13.4 billion *total funding available for claims*

We are a Public Financial Corporation and a corporate Commonwealth entity and we engage with the Australian Government through our Responsible Minister.

Our customers

PROVIDE TERRORISM REINSURANCE COVER

$126.2 million

premium revenue

We provide reinsurance cover to 235 cedants, who themselves insure more than $3.4 trillion in sums insured and collect around $3.7 billion in gross written premiums from commercial businesses. In 2015-16, ARPC collected $126.2 million in premiums from our cedants, which represents 3.5 per cent of insurer gross written premiums.

While the TI Act mandates that insurers provide cover for terrorism, it is voluntary for insurers to buy reinsurance from ARPC. Insurers can purchase cover with ARPC, offer cover under their own capacity or purchase alternative reinsurance. Insurers who enter into a reinsurance agreement with ARPC lay off their terrorism liability to ARPC and their eligible insurance contracts are protected through ARPC's net assets, our retrocession reinsurance and the Commonwealth guarantee.

Our reinsurance capacity

ARPC delivers significant reinsurance capacity to our insurer clients with $13.4 billion reinsurance cover available in the event of a DTI. Total capacity comprises industry retentions (the deductible or excess retained by the insurer), ARPC net assets (held in our claims reserve from accumulated surpluses), retrocession reinsurance (private cover we purchase from reinsurers) and the Commonwealth guarantee. In 2015, we purchased $2.9 billion coverage through our retrocession reinsurance program placed with 61 reinsurers from within Australia and globally at a net cost of $56.9 million for the financial year.

PROTECT THE GOVERNMENT AND ENCOURAGE PRIVATE SECTOR PARTICIPATION

$2.9 billion *private sector funding for claims*

ARPC purchases a share of the global terrorism reinsurance capacity available for Australian commercial property risks through Standard & Poor's A minus or higher rated reinsurers. However, private sector capacity at reasonable cost is still inadequate to cover the probable maximum loss for a terrorist event. That's where the $10 billion Commonwealth guarantee comes in. ARPC's total capacity, including that guarantee, covers most probable maximum loss scenarios from a conventional blast in central business district (CBD) locations. ARPC is the only vehicle through which insurers can access this guarantee. ARPC compensates the Australian Government for both ownership and for providing the guarantee. In 2015-16, we paid $57.5 million in dividends and $55.0 million in fees, respectively.

Terrorism reinsurance capacity

ARPC purchases retrocession reinsurance to protect the government from accessing the guarantee. This also encourages participation by Australian and global reinsurers to cover private commercial business assets against terrorism losses.

The 2015 Triennial Review undertook independent expert analysis to test the appetite for a return of the private market at the capacity level required to cover a possible maximum loss.

Previous reviews in 2006, 2009, and 2012 concluded there was insufficient commercial market terrorism insurance available at affordable rates. The 2015 review again concluded there was insufficient commercial market terrorism insurance, but further recommended that "as the need for the scheme has persisted for more than a decade, the policy framework against which its operation is assessed should no longer be limited to one that conceives of the scheme as a short-term, temporary measure. While the ongoing need for the scheme should continue to be periodically reviewed, the fact that it has matured into at least a medium term policy response should be recognised and reflected in decisions about the nature and scope of its operation". (2015 Triennial Review, page 1).

Terrorism reinsurance pools and schemes operate in all major western economies. Risk pooling for terrorism catastrophe is an efficient response when capacity is limited and prices are high. As global capacity has slowly increased, ARPC has transferred risk to the private reinsurance market and reduced reliance on the Australian Government guarantee in the event of a terrorism catastrophe.

Payments to government

In 2015-16, ARPC paid the Government $112.5 million in fees and dividends. To date, ARPC has paid the Australian Government total fees and dividends of $550.0 million. We are part-way through the current Federal Budget initiative to pay fees and dividends up until the end of FY 2017–18. By the end of FY 2017-18, ARPC will have paid the Government fees and dividends totalling $845.0 million.

COMPENSATE THE GOVERNMENT

$112.5 million *Fees and Dividends*

Our value for money

The average price of cover for insurers in 2015-16 is 3.5 per cent of eligible policy premiums, a very favourable level compared to other international terrorism reinsurance pools.

Retentions (the deductible or excess) held by insurers are also low, providing them with significant support. They average $1 million and range up to a maximum of $10 million.

Insurers covered by ARPC also benefit from the capping of liability under the TI Act. This limits insurer liabilities through a legislated reduction percentage for a loss exceeding ARPC's capacity. The reduction percentage operates by reducing very large losses so that no more than the $10 billion Commonwealth guarantee is drawn. This means each insurer's capital is fully protected, although underlying commercial business policyholders may receive a reduced payment if the DTI exhausts the guarantee.

2016–2017 Corporate Plan

In August 2016, we published our 2016–2020 Corporate Plan, as required under the PGPA Act. This corporate plan reflects our strategic objective to continue to develop ARPC's capacity to be a trusted advisor on terrorism insurance. Further details of the plan are set out in this report.

ARPC's new Sydney office

ARPC's operations in Canberra and Sydney have been relocated and consolidated into a new Sydney office. The new office has been fitted out with an efficient office design. We have also installed new technologies which increase our ability to remotely access systems.

The relocation has also enabled a 67 per cent reduction in our floor space occupancy from 1,452 square metres to 480 square metres.

All Canberra-based staff were offered full transfer of their role and relocation benefits, however, all opted for redundancy. It was a sad time in ARPC's history as we farewelled our Canberra colleagues.

We acknowledge the significant contributions made by our former Canberra colleagues. In particular, we thank the Canberra transition team comprising: Fran Raymond (Chief Operating Officer); Alison Kelly (General Manager Governance Risk and Compliance); Sujit Mukherjee (Manager Finance); and Samual Roberts (Manager Information Technology), all of whom had significant travel commitments throughout the year to support the establishment of the new Sydney office.

On the flip side, our relocation to Sydney has enhanced ARPC's skillset by providing the opportunity to recruit new staff from the general insurance, reinsurance and financial services sectors.

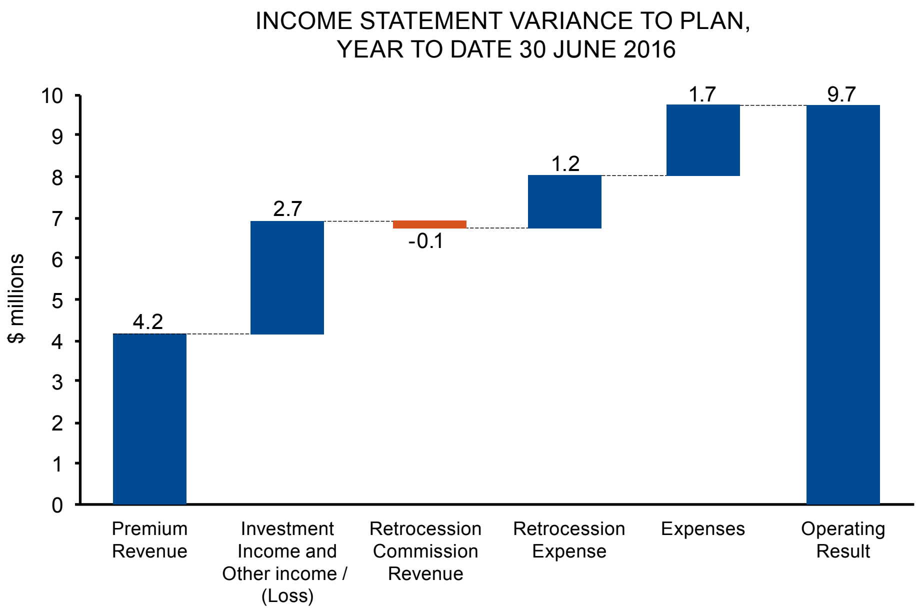
In 2015-16, ARPC completed the office relocation, retrenchments and recruitment of new staff.

Three-year review of the Act (triennial review)

Section 41 of the TI Act requires a review to be conducted at least once every three years, which we refer to as the Triennial Review. The review must examine and report on the need for the TI Act to continue in operation. The 2015 Triennial Review Report was released on 15 December 2015 and the findings are covered in more detail in other parts of this report. In summary, the Report recommended the continuation of the scheme and the extension of its remit to include high value residential buildings and more mixed use (residential and commercial) buildings, a clarification to provide cover for DTIs arising from a biochemical incident and the first premium increase since the scheme's inception to support the scheme's financial sustainability. Reports for the four previous Triennial Reviews, including the 2015 Review, are available on our website http://arpc.gov.au/about-arpc/review-of-the-act.

Financial result overview

Our overall financial performance in 2015–16 was better than plan. Our operating result for the year ended 30 June 2016 was $23.5 million, or $9.7 million (71 per cent) better than plan, and $1.3 million (5.9 per cent) higher than last year. The positive operating result arises from better than forecast items, such as investment income, retrocession premium and operating expenses, as shown below.



During 2015–16, we wrote premium revenue of $126.2 million, which was $4.2 million (3.4 per cent) better than plan, despite being $2.0 million (1.5 per cent) lower than last year.

Investment income was $17.2 million and is $2.7 million (18.7 per cent) better than plan, however, investment income was also $4.0 million (18.8 per cent) less than last year owing to the reduction in our net assets.

Our general operating expenses (including acquisition costs and other operating expenses) totalled $8.2 million. This was $1.7 million (17.5 per cent) better than plan and $0.2 million (2.0 per cent) higher than last year. Our result for general operating expenses was excellent, as this included the complete fit-out of our new Sydney office, the decommissioning of our old Canberra and Sydney offices, and redundancy payments for departing Canberra staff.

Our retrocession premium expense totalled $63.0 million and were $1.2 million (1.9 per cent) better than plan, and $8.2 million (11.6 per cent) lower than last year. Retrocession commission revenue was $6.1 million or $0.1 million (2.3 per cent) worse than plan and $0.8 million (12.1 per cent) lower than last year.

A shrinking balance of investment assets, together with very low interest rates, continues to impact investment income. Investment assets (including cash) totalled $526.3 million, which is $33.8 million (6.0 per cent) less than last year. This was a consequence of fee and dividend payments to government offsetting our positive operating result by $112.5 million.

Our operating result includes $55.0 million fee payment to the Australian Government paid from our expenses, plus $57.5 million in dividends to Government paid from our net assets.

Our net assets fell over the year to $503.7 million and are $34.0 million lower than the previous year. A key reason was the $57.5 million in dividends paid to the Government which is reflected in our balance sheet.

Conclusion

ARPC stands ready to respond to a DTI event if required.

It has been a very busy year for ARPC on many fronts. I would like to thank our Chair Joan Fitzpatrick, the Board, our senior executive team and our staff colleagues for their efforts and contributions through this period of significant change for ARPC.

ARPC also appreciates the continuing support of our cedants, retrocessionaires and property sector stakeholders. We look forward to working with all our stakeholder groups in the year ahead.

Signature Supplied

Dr Christopher Wallace, BEc (Hons), PhD(Econ), ANZIIF (Fellow), CIP, GAICD
Chief Executive

21 September 2016

REPORT OF OPERATIONS DECLARATION

The Members of the Australian Reinsurance Pool Corporation are pleased to present their annual report on the operations of the Corporation for the financial year ended 30 June 2016. This report is made in accordance with a resolution of the Members.

The Members are responsible under section 46 of the PGPA Act for the preparation and content of this report in accordance with the PGPA Rules.

Signed for and on behalf of Members in accordance with the resolution of the Members.

Signature Supplied	Signature Supplied
Joan Fitzpatrick BA(Hons), LLB, ANZIIF (Fellow), CIP, GAICD	Tom Karp BA (Hons), FIAA Member and Chair of the Audit and Chair Compliance Committee
21 September 2016	21 September 2016

PART 01

Our Strategy

Our Strategy

INTRODUCTION

ARPC is established under the TI Act. It was created after the terrorist attacks in the USA on 11 September 2001. After that attack there was a global withdrawal of terrorism insurance cover leaving commercial property in Australia uninsured against terrorism attacks. ARPC was established by the Australian Government with the support of stakeholders in the property, banking, insurance and reinsurance sectors.

Section 9 of the TI Act established ARPC as a statutory authority, while Section 10 prescribed the key function of ARPC, which is to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)' and the power to do all things necessary or convenient to be done for or in connection with performing our function (Section 11 of the TI Act).

ARPC is a corporate Commonwealth entity under the PGPA Act. We are subject to the PGPA Act financial and non-financial reporting requirements.

OUR PURPOSE AND ROLE

The ARPC Corporate Plan 2015-16 sets out our purpose and role, through which we are strengthening our connection with our stakeholders with an objective to be a trusted advisor to Government and stakeholders on terrorism risk insurance and reinsurance.

We have articulated our purpose and role as follows:

Purpose	to protect Australia from economic losses caused by terrorism catastrophe.
Role	we use our expertise to provide cost effective reinsurance to support the economic resilience of the nation.

OUR STRATEGIC CONTEXT

Addressing market failure

ARPC addresses market failure in the Australian commercial property terrorism insurance market through risk sharing and mitigation. After 13 years of operation, there is still no whole-of-market, sustainable, alternative provider of terrorism reinsurance. The reinsurance market still has insufficient capacity to offer uniform terrorism coverage at affordable prices, a situation unlikely to change anytime soon.

Market failure is evidenced by the fact that the 2016 retrocession program purchased by ARPC was close to the total available global capacity for Australia, yet equates to only 30 per cent of the $10 billion cover provided by the Commonwealth guarantee.

National threat level

On 26 November 2015, the Australian Government launched a new National Terrorism Threat Advisory System (NTTAS) to inform the public about the likelihood of an act of terrorism occurring in Australia. NTTAS has five levels to indicate the national threat level. The levels are:

- Certain (red)
- Expected (orange)
- Probable (yellow)
- Possible (blue)
- Not expected (green)

While the threat level has not changed, under NTTAS, the level is known as Probable. This reflects the intelligence assessment by the National Threat Assessment Centre (NTAC) within the ASIO that individuals or groups have developed both an intent and capability to conduct a terrorist attack in Australia. The current level has not been introduced in response to a specific threat.

NTTAS was developed following a review of Australia's counter-terrorism machinery released in January 2015 and was agreed by the states and territories at COAG in July 2015. This new system replaces the former National Terrorism Threat System and the Public Alert System.

For more information on the National Terrorism Public Alert System and the current level of alert please visit: www.nationalsecurity.gov.au/threatlevel

ASIO provides information on the nation's threat environment. At the time of writing this report, the ASIO public website advised that Australia will continue to face a persistent threat of terrorism, espionage, foreign interference, including cyber security threats.

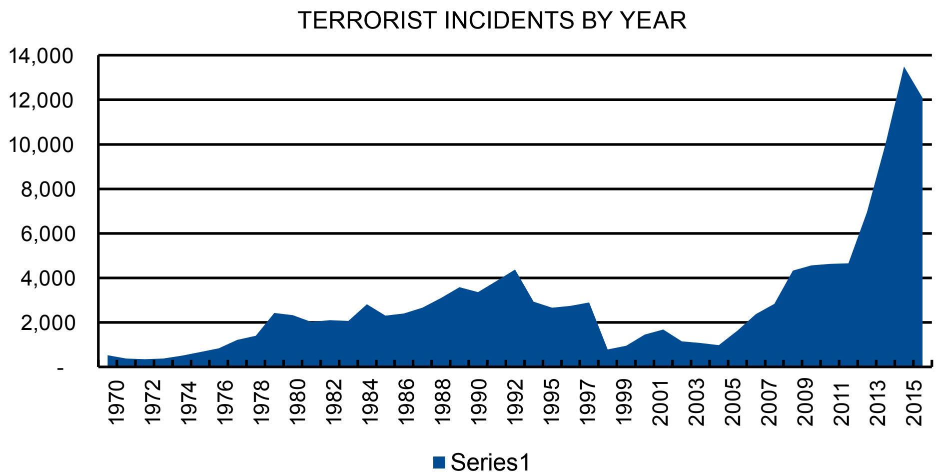
For more information on Australia's threat environment please visit: www.asio.gov.au/threat-environment.html

International threat environment

The international threat environment for terrorist events has dramatically changed in recent years. Recent terrorist attacks in Paris, Nice, Orlando and Germany show an increase in the frequency and severity of terrorism in the West. There has also been a growing trend in the perpetrators of terrorist acts: an individual who has not previously been on the authorities' radar but who is unstable and susceptible to rapid radicalisation

The University of Maryland, USA, hosts a National Consortium for the Study of Terrorism and Responses to Terrorism (START), which publishes a Global Terrorism Database (GTD). The graph on the next page depicts the number of terrorist incidents by year in a graphic format using data from START, GTD and from the Institute for Economics & Peace (IEP).

Figure 1.1: Number of international terrorism incidents by year 1970–2015



Source: START GTD, IEP calculations

The GTD is an open-source database containing information on terrorist events around the world from 1970 to 2015. The GTD includes systematic data on over 140,000 international terrorist incidents that have occurred during this time period. Since 1991, the number of terrorist incidents globally has more than tripled.

Below in the table is a list of defined terrorist events between 1970-2015 used to create the graph.

Figure 1.2: List of defined terrorist events 1970-2015

YEAR	INCIDENTS
1970	528
1971	378
1972	348
1973	378
1974	506
1975	670
1976	837
1977	1,217
1978	1,400
1979	2,426
1980	2,326
1981	2,022
1982	2,102
1983	2,067
1984	2,816
1985	2,305
1986	2,402
1987	2,664
1988	3,097
1989	3,583
1990	3,361
1991	3,863
1992	4,376
1994	2,931
1995	2,661
1996	2,745
1997	2,897
1998	786
1999	952
2000	1,454
2001	1,682
2002	1,151
2003	1,078
2004	979
2005	1,627
2006	2,373
2007	2,834
2008	4,328
2009	4,562
2010	4,630
2011	4,656
2012	6,950
2013	10,009
2014	13,496
2015	12,091

For more information, please see http://www.start.umd.edu/gtd

OUR STRATEGIC PRIORITIES

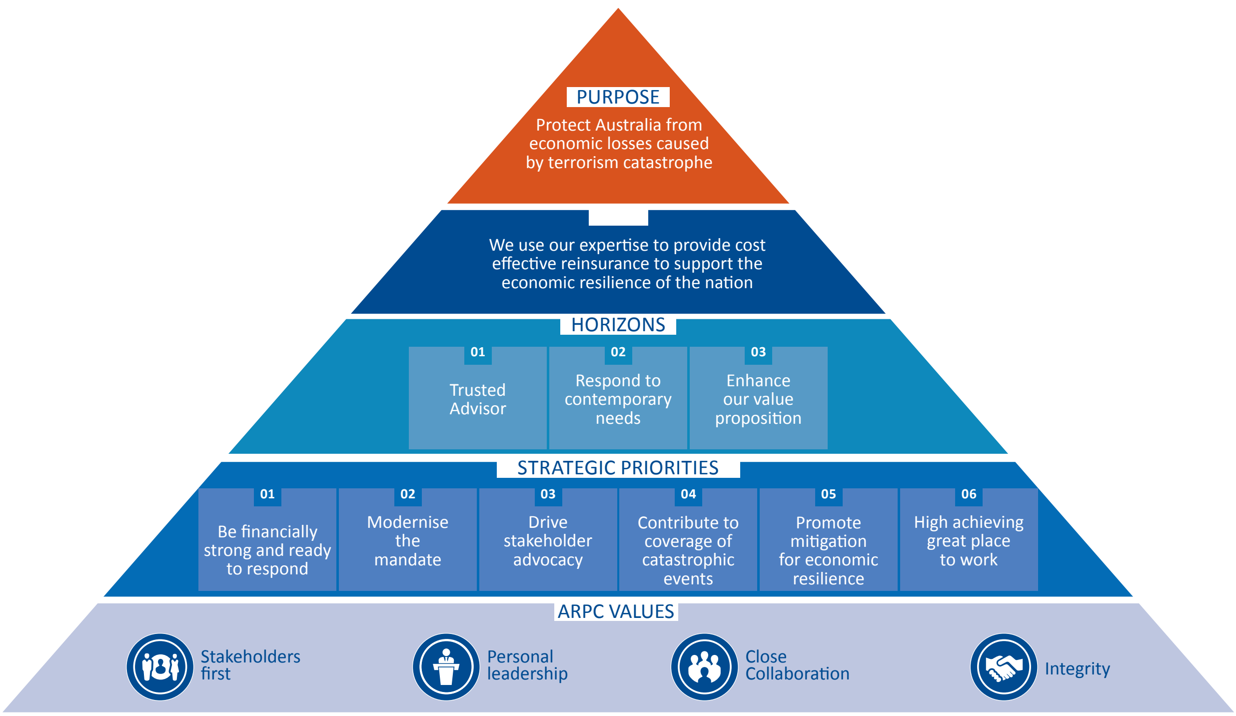
ARPC's 2015-16 Corporate Plan sets out six strategic priorities for the year with initiatives under those priorities supporting our purpose and role. These strategic priorities were refined for the 2016-17 year in a Board and Senior Executive workshop held in February 2016. These are set out below:

Figure 1.3: Strategic priorities

Strategic Priorities 2015-16	Strategic Priorities 2016-17
Drive stakeholder communication and engagement	Be financially strong and ready to respond
Foster a flexible, efficient, and high performing culture	Modernise the mandate
Be trusted advisor on terrorism and catastrophe reinsurance	Drive stakeholder advocacy
Manage our risks effectively	Contribute to coverage of catastrophic events
Maximise our financial performance to support our financial sustainability	Promote mitigation for economic resilience
Expand our coverage within the *Terrorism Insurance Act 2003*	Be a high achieving great place to work

ARPC's strategic vision is underpinned by our values. Our strategic vision and values are represented below.

Figure 1.4: ARPC Strategic Plan 2016-20



OUR VALUES

Our values support our strategic objectives by influencing the decision making and behaviour in all our activities. These values also support the ARPC Code of Conduct.

Figure 1.5: ARPC values

Stakeholders first	Personal leadership	Close Collaboration	Integrity
understand stakeholder needs exceed client expectations focus on finding solutions for stakeholder for stakeholder problems communicate with transparency	be proactive take ownership lead by example take initiative respect one another	coach and mentor others work together celebrate our success be authentic empower and trust our colleagues	do the right thing be trustworthy speak with positive intent value and embrace diversity be consistent

The table below shows the activity undertaken in 2015–16 to progress our strategic priorities against our 2015-16 Corporate Plan.

Figure 1.6: Activities undertaken to progress our strategic priorities against our Corporate Plan

STRATEGIC PRIORITY	
Drive stakeholder communication and engagement	ARPC continues to place a high priority on stakeholder engagement activity and undertook a number of outreach communication programs to the government sector, insurers, reinsurers, and the property sector. We enhanced our stakeholder engagement plan in 2015-16. We delivered informative and relevant presentations at industry events including the *National Terrorism Reinsurance Pools Congress* in London; at our own Triennial Review information briefings, the Actuaries Institute's *Enterprise Risk Management Seminar* and at business events run by CEDA and the Trans-Tasman Business Circle. In addition, we have held stakeholder meetings with insurers and commercial property owners to inform them about our scheme coverage. We have also engaged extensively with our peer terrorism reinsurance schemes overseas, together with the OECD, while preparing to host the ARPC-OECD Global Terrorism Risk Insurance Conference (scheduled for October 2016).

STRATEGIC PRIORITY *Foster a flexible, efficient and high performing culture*	Regular training sessions were conducted for all staff on operational areas and on organisational policy. All staff participated in reinsurance training provided by ANZIIF. We implemented a new enterprise agreement effective from July. Job descriptions were updated. A functional analysis of all roles was completed against a reinsurance capability framework. All executive and staff underwent performance appraisals including informal mid-year and formal end of year appraisals.

STRATEGIC PRIORITY *Be a trusted advisor on terrorism and catastrophe reinsurance*	During the reporting period, ARPC participated in national and international forums on terrorism and catastrophe insurance and financing (see details under Stakeholder Engagement). We responded to a range of requests for advice and input, including from The Treasury and Australian Government. ARPC provided technical input to the Northern Australia Insurance Affordability Taskforce in areas such as storm reinsurance. We continued our collaboration with Geoscience Australia on the 3D blast exposure modelling and biochemical plume modelling.

STRATEGIC PRIORITY *Manage our risks effectively*	ARPC further refined its underlying control systems to better identify, rate, quantify and mitigate our risks. This process was enhanced in 2015-16 through the implementation of new risk management software. As part of our enterprise risk management framework, ARPC has also developed a comprehensive risk appetite statement and further refined its risk register.

STRATEGIC PRIORITY

Maximise our financial performance to support our financial sustainability

ARPC maximises its financial performance by judicious management of its net assets and operating result. Additionally, we commenced the development of a Capital Management Plan.

ARPC's purchase of retrocession increases our capability to pay claims and reduces Australia's exposure in the event of a DTI. The 2016 retrocession program was structured to provide financial sustainability, while still enabling ARPC to meet the Guarantee fees and dividends payable to the Australian Government.

We continued our audit program for insurer clients (called our cedant review program) to verify that accurate premiums were submitted to ARPC.

We produced monthly reporting on balanced scorecard key performance indicators.

Operational efficiency was one of the drivers for the decision to relocate our operations to a new Sydney office.

STRATEGIC PRIORITY

Expand our coverage within the Terrorism Insurance Act

ARPC briefed insurers and reinsurers about the outcome and implications of the 2015 Triennial Review. This briefing focused on the Review's recommendations to extend the remit of the scheme to include mixed-use commercial and residential property, high-rise residential property and clarify the coverage provided for biochemical terrorist incidents.

Another focus was to identify additional gaps in the scheme for consideration at the next Triennial Review, in particular, highly destructive cyber terrorism. ARPC published a white paper in March 2016 titled: Physically Destructive Cyber Terrorism as a Gap in Current Insurance Coverage. This can be found on our website http://arpc.gov.au/files/2016/03/ARPC-Cyber-Terrorism-Discussion-Paper-FINAL.pdf

WORKING WITH OUR STAKEHOLDERS

Stakeholder engagement

ARPC is committed to open and timely communication with stakeholders and we strive to understand their needs and exceed their expectations. During 2015–16 we continued to develop and sustain our stakeholder relationships. We met regularly with insurers, major commercial property owners and relevant state and federal government agencies. We also provide customer service on reinsurance agreements and insurer premium submissions.

Face-to face meetings were held during the reporting period with the following stakeholders:

- reinsureds;
- retrocessionaires;
- industry bodies;
- local, state and federal Governments; and
- state insurance corporations.

In 2015-16 we continued to refine an online Customer Relationship Management (CRM) system to improve stakeholder management and communication tracking capabilities.

The new system enables ARPC to record all its client information in a central repository and provides organisation-wide visibility over the various interactions we have with our stakeholders.

Sharing our knowledge

Sharing our knowledge with stakeholders enhances existing relationships and develops partnerships across the spectrum of reinsurance activities. During 2015-16, ARPC representatives attended industry forums as delegates and presenters.

Publications

ARPC publishes a quarterly electronic newsletter called *Under the Cover* aimed at insurers and other subscribers to communicate information relating to their insurance cover with ARPC. This includes postcode updates for reporting exposures and other information regarding reinsurance agreement obligations.

In 2015-16, our periodic *Market Update* publication provided information on the relocation of the ARPC office from Canberra to Sydney, the publication of our 2015-16 Corporate Plan, information on the new five-level terror alert system and the release of the 2015 Triennial Review outcomes. ARPC also published eight press releases during the period.

Industry involvement

ARPC engages with the Australian and international insurance industry through various forums. We participate in industry events in order to raise stakeholder awareness of the scheme and to stay informed about global industry developments in insurance and terrorism risk. During 2015–16, ARPC attended industry conferences and events including:

- National Terrorism Reinsurance Pools Congress – London;
- APRA terrorism seminar;
- Finity Cyber Seminar;

- Insurance Council of Australia, Regulatory Briefing;
- Institute of Actuaries, Enterprise Risk Management Seminar;
- Create Foundation, Beat the Boss's, Insurance Industry Event;
- Australian and New Zealand Institute of Insurance and Finance, Claims Convention; and
- Australian and New Zealand Institute of Insurance and Finance, Reinsurance Rendezvous

Cedant review program

We undertake reviews of our cedants on a regular basis. The reviews provide verification that cedants are meeting all their obligations under ARPC's reinsurance agreement. The following table details the number of visits to cedants conducted over the past five years.

Figure 1.7: Number of cedant reviews undertaken by ARPC

Type of review	2015-16	2014-15	2013–14	2012–13	2011–12	2010–11
Full reviews	42*	10	28	12	14	20
Follow up reviews	14	12	6	12	13	9
Total	56	22	34	24	27	29

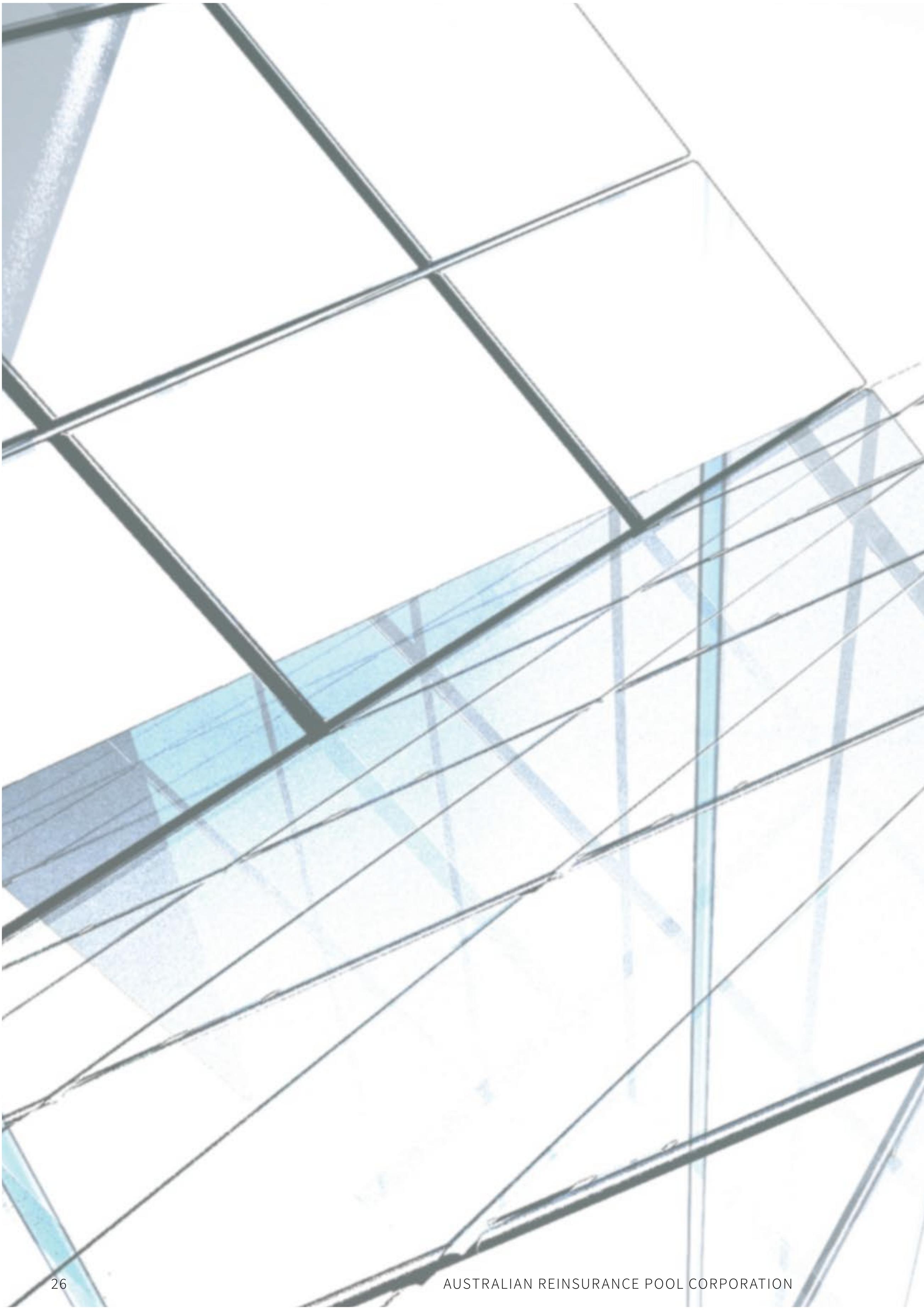
* Includes reviews on Singapore based captive insurers

Cedant review trends

While compliance is generally good, our reviews have identified a few common weaknesses including:

- postcode tables not being updated.
- back-calculating of gross written premium.
- terrorism exclusion clauses that are ambiguous or which could have unintended consequences.
- miscoding for premium purposes
- lack of understanding of ARPC processes, owing to cedant staff turnover.

We will continue to work with cedants to reduce the incidence of these issues.



PART 02

The scheme

The scheme

BACKGROUND

In July 2003, the ARPC terrorism insurance pool (the scheme) was established. When a DTI is declared, the TI Act renders invalid any terrorism exclusion clause in an eligible insurance contract.

Although insurers remain liable for commercial terrorism risks, reinsuring with the scheme is not compulsory. Insurers can choose to carry the risk of terrorism losses following a DTI, reinsure the risk through the commercial insurance market, or choose to reinsure with ARPC by paying the scheme premiums.

ARPC's policy objectives are outlined in the explanatory memorandum of the TI Act (Revised Explanatory Memorandum of the Terrorism Insurance Bill 2002). These objectives are that intervention would need to be consistent with:

- the need to maintain, to the greatest extent possible, private sector involvement;
- ensuring risk transferred to the Australian Government is appropriately priced and that the Australian Government is compensated by those benefiting from the assistance;
- allowing the re-emergence of the commercial markets for terrorism risk cover; and
- global solutions.

How the scheme operates

Through the scheme, insurance companies can choose to reinsure the risk of claims for eligible terrorism losses following a DTI by paying reinsurance premiums to ARPC (see Premiums).

Contracts of insurance covered by the scheme are those that provide insurance for:

- loss of, or damage to, eligible property that is owned by the insured
- business interruption and consequential loss arising from:
  - loss of, or damage to, eligible property that is owned or occupied by the insured
  - inability to use eligible property, or part of eligible property, that is owned or occupied by the insured
- liability of the insured that arises out of the insured being the owner or occupier of eligible property.
- Eligible property is property located in Australia comprising of:
  - buildings (including fixtures) or other structures or works on, in or under land
  - tangible property that is located in, or on, such property
  - property prescribed by regulation.

The scheme does not cover loss or liability arising from the hazardous properties of nuclear fuel, material or waste. The scheme also does not cover residential property or the contents of residential property. However, farms can obtain cover if they hold insurance against business interruption.

Claims against the scheme will be met once an individual insurance company's risk retention (the deductible or excess) is exhausted. The scheme requires insurers to retain the first portion of any loss.

The total capacity of the scheme currently stands at $13.4 billion including all sources of funding (see Scheme funding capacity).

Reduction percentage

If the Minister considers that the total paid or payable by the Australian Government under section 35 of the TI Act would exceed $10 billion, then the announcement of a DTI must be accompanied by the specification of a reduction percentage. The reduction percentage is only available to insurers who reinsure with ARPC, with the effect being to reduce the amounts payable for terrorism losses under eligible insurance contracts. The reduction percentage may subsequently be reduced by the Australian Government.

The consequences of the reduction percentage, if applied, are that insurers are fully covered by ARPC and have no liability for any costs above their retention. However, eligible policyholders will receive a reduced claim payment commensurate with the amount of the reduction percentage.

If an insurer is not reinsured with ARPC, then they are liable for the full costs of a DTI claim. They will not be protected by the reduction percentage and must pay claims to the limit of the policy sum insured, subject to the policy terms and conditions.

Premiums

ARPC's premium and investment income is used to fund its operations, pay retrocession premiums, build the reserve available to meet future claims and pay any Australian Government fees and dividends. The premium charged by ARPC for reinsurance is determined by a Ministerial Direction. Premiums increased for the first time (since 2003), with effect from 1 April 2016. This was as a result of the 2015 Triennial Review recommendations in order for ARPC to remain self-funded over the medium term, while reasonably compensating the Government and maintaining an appropriate level of capital. These increased premiums are shown in Figure 2.1 below.

Figure 2.1: New Tier Rates

Premium Tier	Current Rate
A	16% of gross base premium (was 12%)
B	5.3% of gross base premium (was 4%)
C	2.6% of gross base premium (was 2%)

The premium tiers have been set by postcode, having regard to the population density in a postcode area. Figure 2.2 illustrates the breakdown of the three premium tiers and the broad geographical location to which they relate.

Figure 2.2: Tier and broad geographical location

Premium Tier	Geographical location
A	Covering the CBD areas of Australian cities with a population of over one million (Sydney, Melbourne, Brisbane, Perth and Adelaide)
B	Covering the urban areas of all Australian state capital cities and cities with a population over 100,000 (Sydney, Melbourne, Brisbane, Perth, Adelaide, Gold Coast, Canberra, Newcastle, Central Coast of New South Wales, Wollongong, Hobart, Geelong, Sunshine Coast of Queensland, Townsville and Darwin)
C	Australian postcodes not allocated to either tier A or B and representing a physical address, as well as any property not on the mainland of Australia or Tasmania, but within the coastal sea of Australia

Reinsurance premiums are calculated as a percentage of the premium charged by the cedant that is attributed to eligible insurance contracts, as shown in the following table of premium tiers.

The scheme allows for the tier rates to be increased following a claim on the scheme, enabling ARPC to meet its outstanding claims liabilities and rebuild the claims reserve.

Figure 2.3: ARPC premium rates per class and tier

Class of insurance	Tier	Tier rate as a percentage of underlying policy gross base premium
Commercial, industrial, property and construction risks	A	16
	B	5.3
	C	2.6
Business interruption associated with eligible property	A	16
	B	5.3
	C	2.6
Public liability as the owner or occupier of eligible property	A, B and C	Nil

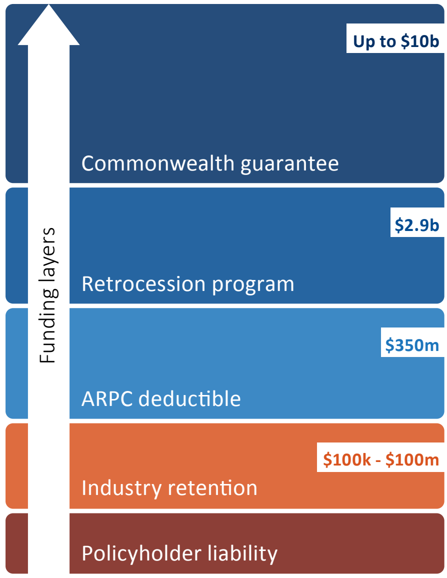
SCHEME FUNDING CAPACITY

ARPC currently provides insurers with a claims funding capability of $13.4 billion in reinsurance capacity, comprising ARPC's net assets, retrocession reinsurance and the Australian Government guarantee. Since 2009, ARPC has placed an annual retrocession program, purchasing around $2.9 billion in capacity through 61 reinsurers, most of which are located overseas.

ARPC purchases significant global terrorism reinsurance capacity available for Australian risks through reinsurers, all of which must be rated by Standard and Poor's or AM Best as A- or equivalent. Through its loss modelling capability, ARPC recognises that private sector capacity is insufficient to cover a probable maximum loss of a catastrophic terrorism event in Australia. However, because ARPC has access to the $10 billion Commonwealth guarantee, ARPC's capacity actually covers 98 per cent of all probable losses resulting from a conventional blast scenario in CBD locations.

Figure 2.4 shows the share of ARPC funding for claims from all sources.

Figure 2.4: 2016 ARPC Scheme diagram



The order of funding for claims against the scheme is in layers, as follows:

1. Policyholder deductible (e.g. excess or retention stated in the underlying policy)
2. Insurer retention (retention stated in the cedant's reinsurance agreement) up to a maximum industry retention (total retention from all cedants involved in the one event)
3. ARPC net assets totalled $503 million as at 30 June 2016 which funds the $350 million ARPC retrocession deductible
4. Retrocession capacity of $2.9 billion, excess of $350 million
5. Commonwealth guarantee up to $10 billion.

SCHEME BENEFITS

ARPC covers almost all private commercial property and private critical infrastructure in Australia, with an aggregate sum insured of over $3.4 trillion. We continue to offer value for money to insurers. The average price of cover in 2015-16 was 3.5 percent of insurer gross written premiums.

The levels of retention held by insurers are low, ranging from $100,000 to a maximum of $10 million for individual insurers, while the maximum industry retention is capped at $100 million.

Cedants with ARPC also benefit from the capping of their liability under the TI Act, through a legislated reduction percentage for any loss exceeding the scheme capacity. Through this reduction percentage, the capital of our reinsureds is protected.

PAYMENTS TO GOVERNMENT

ARPC assists the sharing of risk between the private sector and the Australian Government. ARPC pays the Australian Government fees and dividends to provide fair compensation for the provision of the $10 billion Commonwealth guarantee backing the terrorism insurance scheme, as well as an owner's dividend.

As at May 2016, ARPC will have paid the Australian Government fees and dividends (in total) of $550 million. ARPC is part-way through the current initiative to pay the Australian Government a total of $450 million in fees and dividends up until FY 2017-18. A new fee to the Australian Government of $35.0 million per annum will commence in FY 2016-17, which was previously announced in the MYEFO (Mid-Year Economic and Fiscal Outlook) in December 2015.

Figure 2.5: Summary of payments to Government (as at May 2016)

Financial Year	**First** Dividend Announced $400 million over 4 Years May 2012 Federal Budget	**Second** Dividend Announced $300 million over 4 Years May 2013 Federal Budget	**Third** Dividend Announced $450 million over 4 Years May 2014 Federal Budget	**Fourth** Payment Announced $35 million per annum (ongoing) December 2015 Mid-Year Economic and Fiscal Outlook (MYEFO)	Total Per Financial year
FY 2012-13	$175.0m	-	-		$175.0m
FY 2013-14	$75.0m	$75.0m	-		$150.0m
FY 2014-15	$75.0m (Cancelled)	$75.0m (Cancelled)	$55.0m Fee and $57.5m Dividend		$112.5m
FY 2015-16	$75.0m (Cancelled)	$75.0m (Cancelled)	$55.0m Fee and $57.5m Dividend		$112.5m
FY 2016-17		$75.0m (Cancelled)	$55.0m Fee and $57.5m Dividend	$35.0m Fee	$147.5m
FY 2017-18			$55.0m Fee and $57.5m Dividend	$35.0m Fee	$147.5m
TOTAL					$845.0m

ARPC is drafting a Capital Management Plan which will help all parties understand the prudent level of capital that should be retained by the pool in order to adequately protect the Australian economy.

GLOBAL TERRORISM REINSURANCE POOLS

Many governments and insurance markets around the world have introduced terrorism insurance pools. Some were created in response to the events of 11 September 2001, while others were established in response to specific terrorist threats within each country.

Terrorism insurance pools are the global standard approach to providing cost effective reinsurance for terrorism catastrophe. Figure 2.6 lists the international terrorism insurance pools in place today.

Figure 2.6: Terrorism reinsurance pools

Country	Compulsory Pool (Y/N)	Terrorism reinsurance pool
Australia	N	Australian Reinsurance Pool Corporation (ARPC)
Austria	N	Osterreichisher Versicherungspool Zur Deckung (The Austrian Terror Pool)
Bahrain	N	The Arab War Risks Insurance Syndicate (AWRIS)
Belgium	N	Terrorism Reinsurance & Insurance Pool (TRIP)
Denmark	N	Danish Terrorism Insurance Scheme
Finland	N	Finnish Terrorism Pool
France	N	Gestion de L'assurance et de Reassurance des Risques D'attentats et Terrorism (Gareat)
Germany	N	Extremus Versicherungs-AG
Hong Kong-China	N	The Motor Insurance Bureau (MIB)
India	N	The General Insurance Corporation of India
Indonesia	N	Indonesian Terrorism Insurance Pool
Israel	Y	Terrorism (Intifada Risks)-The Victims of Hostile Actions
Namibia	N	Namibia Special Risks Insurance Association (NASRIA)
Netherlands	N	Nederlandse Herverzekeringsmaatschappij Voor Terrorismeschaden (NHT)
Northern Ireland	N	Criminal Damage Compensation Scheme Northern Ireland
Russia	N	Russian Anti-Terrorism Insurance Pool (RATIP)
South Africa	N	South African Special Risks Insurance Association (SASRIA)
Spain	Y	Consorcio de Compensacion de Seguros (CCS)
Sri Lanka	N	SRCC/Terrorism Fund-Government
Switzerland	N	Terrorism Reinsurance Facility
Taiwan	N	Taiwan Terrorism Insurance Pool
United Kingdom	N	Pool Reinsurance Company Limited (Pool Re)
United States	N	Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

2015 TRIENNIAL REVIEW

The TI Act was drafted with the aim of encouraging commercial insurers to offer terrorism cover in Australia again. The TI Act would protect the commercial property sector from terrorism risks until market appetite for terrorism insurance returned. Given global market uncertainty at the time, a requirement was written into the TI Act that the Minister must provide a report every three years, reviewing the need for the TI Act to continue.

Under the terms of reference for each review, the Treasury was to seek submissions from, and consult widely with, ARPC's key stakeholders. These include:

- private sector insurers, reinsurers and brokers
- peak bodies representing the general insurance, banking, broking and property industries
- state and territory governments
- other Australian Government agencies, including ARPC.

There have been four reviews published, each examining the operation of the TI Act in the context of contemporary market trends, including government responses globally to market failure. Each review recommended the continuation of the TI Act for a further three years.

FINAL REPORT 2015

On 15 December 2015, the Treasury released the final report of the 2015 Triennial Review.

The 2015 Triennial Review was conducted by Treasury late in 2014 and early 2015. Pottinger assisted in this process by conducting market soundings on the need for ARPC to continue to administer the terrorism insurance scheme. The Treasury also commissioned Finity to undertake a review of terrorism insurance cover for high-rise residential and mixed-use commercial property.

The final review report was published on 15 December 2015. It considered whether the TI Act should continue, the scheme rationale, ARPC's ownership structure, as well as ongoing financial sustainability. In summary, the Review concluded that market failure still exists in the Australian terrorism insurance market and recommended that ARPC remain in place under the current ownership structure and administration.

The Triennial Review recommended that "the current ownership and administration structure of the scheme as set out in the Act be retained, while noting there is scope to revisit alternative structures in future if there is a significant change in market conditions. Nevertheless, as the need for the scheme has persisted for more than a decade, the policy framework against which its operation is assessed should no longer be limited to one that conceives of the scheme as a short-term, temporary measure. While the ongoing need for the scheme should continue to be periodically reviewed, the fact that it has matured into at least a medium-term policy response should be recognised and reflected in decisions about the nature and scope of its operation".

Recommendations were made to extend the scope of the scheme and support its financial sustainability. In particular, the Review recommended that the scope of the scheme be extended, so that it applies to:

1. buildings in which at least 20 per cent of floor space is used for commercial purposes; and

2. buildings with a sum-insured value of at least $50 million, whether used for commercial or other purposes.

The Review recommended that the TI Act be clarified to remove doubt about coverage for losses involving chemical or biological chemicals. These items are due to be addressed in the second half of 2016.

The review also recommended that premiums be increased from 1 April 2016 to enable ARPC to remain self-funded over the medium term, while reasonably compensating the Australian Government and maintaining an appropriate level of capital.

The full list of recommendations appears below:

Structure of ARPC

Recommendation 1: That the Act remains in force, subject to future three-yearly statutory reviews.

Recommendation 2: That the current administration structure of the ARPC as set out in the Act be retained.

Retentions

Recommendation 3: The four per cent rate of gross fire and industrial special risk premium (less any fire services levy) should be increased to five per cent.

Recommendation 4: Current maximum retention levels for individual insurers should be removed.

Recommendation 5: The maximum industry retention should be increased from $100 million to $200 million.

Retrocession

Recommendation 6: That the ARPC continue to have the discretion to purchase retrocession, subject to ARPC assessing the need for, and levels of, its retrocession programme and value for money.

Fee for the Australian Government guarantee

Recommendation 7: That the ARPC pay to the Australian Government each year, commencing in 2016-17:

(a) a fee of $55 million in respect of the Commonwealth guarantee of the ARPC's liabilities; and

(b) an additional amount of $35 million per annum to reflect Australian Government support in making ARPC reserves available for payment of claims.

Premiums

Recommendation 8: That the premiums charged by the ARPC be increased, with effect from 1 April 2016 to:

- 16 per cent for Tier A,
- 5.3 per cent for Tier B, and
- 2.6 per cent for Tier C.

Scope of the scheme

Recommendation 9: That the scope of the scheme be extended so that it applies to:

(a) buildings in which at least 20 per cent of floor space is used for commercial purposes; and

(b) buildings with a sum-insured value of at least $50 million, whether used for commercial or other purposes.

Recommendation 10: That the application of the Act be clarified by amendments that remove doubt about whether certain losses would be covered under the scheme; in particular, losses attributable to terrorism attacks that use chemical or biological means.

IMPLEMENTATION

After market consultation, the Department of Treasury has continued work on the drafting of legislation to implement the 2015 recommendations including the introduction of mixed-use and high value buildings to the scheme, an adjustment to cedent retentions and clarification of coverage for an event involving biological or chemical materials. We expect these changes to be implemented during the second half of 2016/17.

NORTHERN AUSTRALIA INSURANCE PREMIUMS TASKFORCE

On 4 March 2016, ARPC welcomed the Final Report of the *Northern Australia Insurance Premiums Taskforce* released by the then Minister for Small Business and Assistant Treasurer, the Hon. Kelly O'Dwyer MP.

The Taskforce was established in May 2015 to explore the feasibility of options to reduce insurance premiums in northern Australia, where cyclone risk has caused affordability concerns.

Terms of reference

Under its terms of reference, the Taskforce was asked to consider the potential reduction in the cost of consumer premiums and the feasibility of using the Australian Government balance sheet to provide support to:

- A cyclone mutual: which would offer cover directly to households for cyclone damage for home, building and strata complexes; or
- A cyclone reinsurer, which would provide subsidised reinsurance to private insurers for the cyclone risk in their portfolio.

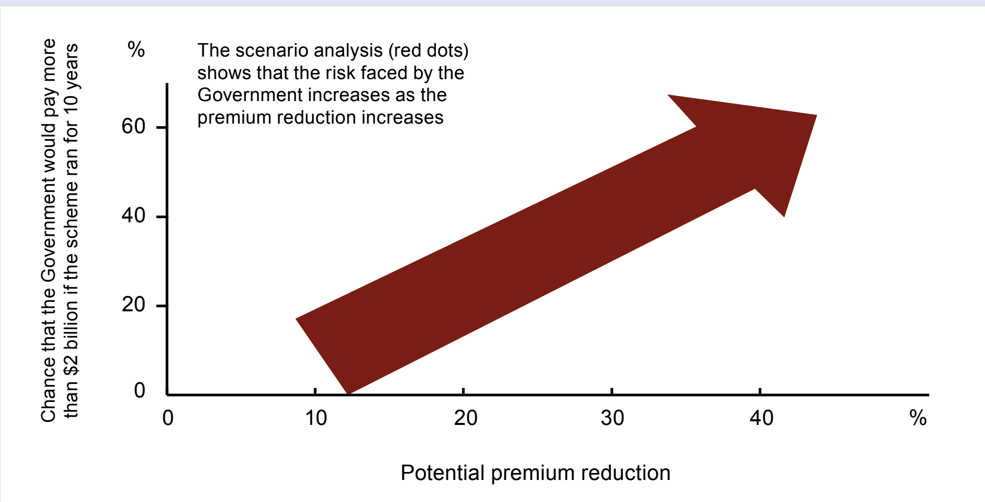
Key conclusions

The Taskforce's report concluded that the only way to get sustainably lower premiums is through mitigation.

The Taskforce looked at the scope for Government intervention in this market, as well as the risk to the Government balance sheet. Using extensive modelling to assess the probability of weather events, the Taskforce predicts Government support for a mutual or a reinsurance pool could be costly for the taxpayer.

For example, the Taskforce calculated that for a scheme that would (on average) lower premiums by 10 to 15 per cent, there is a 10 to 20 per cent chance that it would cost the Government more than $2 billion over 10 years and a 5 to 10 per cent chance the cost would be more than $5 billion. See Figure 2.7 below sourced from the Final Taskforce Report.

Figure 2.7: Potential reduction in premium and cost to government



Another factor the Taskforce examined was the impact on insurance markets. The Taskforce found that if a cyclone mutual is established, it would likely crowd out private insurers from offering cyclone insurance.

The Government also asked the Taskforce to consider how the role of the Government could be reduced if it did intervene in the market through a mutual or reinsurance pool. Experience overseas shows it is very difficult for a government to withdraw from any arrangement that subsidises insurance premiums. Furthermore, if the Government was to withdraw, any potential reduction in premiums would likely be reversed unless households had undertaken mitigation during this time.

The Report found that compared to a mutual insurer, a reinsurance pool would have the same cost to Government for the same premium reduction, a lower impact on the insurance market and a greater potential for Government exit. For these reasons, a reinsurance pool is a more feasible option compared to a mutual insurer for cyclone risk.

In summary, the six key Taskforce conclusions are that:

1. A sustainable way of reducing premiums over the long run is through mitigation.

2. Governments can take a range of relatively low-cost (compared to other options) measures to promote mitigation.

3. The insurance industry should develop insurance pricing systems that provide greater recognition of mitigation action and be more proactive in offering a range of policy options that provide increased scope for policyholders to assume more responsibility for risk of cyclone damage in return for lower premiums.

4. The insurance industry should engage more effectively with property owners in northern Australia.

5. Some property owners may not be able to realise premium reductions from mitigation because they do not have the financial capacity to undertake the necessary work.

6. Of the two insurance options the Taskforce was asked to assess, *a reinsurance pool represents a more feasible approach than a mutual*. In contrast to the mutual, the reinsurance pool could promote competition through new entrants to the northern Australia market. A reinsurance pool which charged premiums to cover the estimated long-run cost of claims from cyclones and was supported by a Government guarantee might offer a premium reduction for consumers of 10-15 per cent. It would be difficult, however, to ensure that cost reductions for insurers did in fact flow through to premium reductions for customers.

The full Taskforce report can be found at www.treasury.gov.au/ConsultationsandReviews/Reviews/2015/NAIP-Taskforce/Final-Report

Minister's response pending

ARPC notes the Minister's remarks at the Insurance Council of Australia's Annual Forum on 4 March 2016:

> "The Government is continuing to carefully consider the Taskforce's report and expects to respond in the coming months…In deciding the best course of action, we will consider:
>
> - the likely cost and risk to the Government;
> - the impact on markets, particularly on competition;
> - the implications for other kinds of natural disasters;
> - how easily the Government can exit the market; and
> - how effective any measures will be in actually lowering premiums".

ARPC's submission

ARPC's submission to the Taskforce was consistent with the Taskforce's conclusion that mitigation measures are the key to long-term, sustainable reductions in premiums. The submission did not advocate for or against a Government-backed reinsurance pool for natural catastrophes. It emphasised that losses to government would be expected to occur frequently, that a pool may not be self-funding and finally that a proportion of any scheme needed to be allocated to community risk mitigation initiatives.

However, the submission noted that a viable pool already existed for terrorism catastrophe and that should the Government resolve to establish a pool, ARPC had the skills and systems to implement it.

ARPC's submission can be accessed at http://www.treasury.gov.au/~/media/Treasury/Consultations%20and%20Reviews/Reviews%20and%20Inquiries/2015/NAIP%20Taskforce/Submissions/PDF/ARPC.ashx

INSURANCE RESULTS AND ANALYSIS

ARPC's financial highlights for 2011 through to 2016 are represented in Figure 2.8 below.

Figure 2.8: Financial highlights

	2016 $000's	2015 $000's	2014 $000's	2013 $000's	2012 $000's
Net premium revenue	**63,170**	56,885	47,980	45,900	37,523
Commonwealth guarantee fee	**(55,000)**	(55,000)	0	0	0
Net claims incurred	**0**	0	0	0	0
Acquisition costs	**(1,549)**	(1,035)	(1,089)	(1,167)	(599)
Operating costs	**(6,622)**	(6,973)	(7,386)	(6,188)	(7,069)
Retrocession commission income	**6,118**	6,956	7,606	7,471	7,705
Investment income	**17,230**	21,337	24,871	31,719	46,370
Other	**130**	(4)	(580)	(5,285)	(442)
Operating result	**23,477**	22,166	71,402	72,450	83,488
Gross written premium	**129,846**	126,568	129,642	132,093	124,709
Outwards reinsurance premium	**(63,002)**	(71,249)	(81,728)	(81,381)	(81,607)
Gross expense ratio	**6.5%**	6.2%	6.5%	5.8%	6.4%
Cash and investments	**526,280**	560,143	596,814	671,183	765,662
Net assets	**503,677**	537,700	573,034	432,642	360,192
Reserve for claims	**479,581**	510,475	535,054	408,252	338,400

The significant changes to ARPC's financial performance and achievements for 2016 measured against 2015 are:

- gross written premium (GWP) of $129.8 million for 2016 (2015: $126.6 million) represents an increase of 2.6% per cent. This comprises two offsetting factors, falls in primary insurance premiums for commercial insurance and increased rates for the scheme commencing 1 April 2016.
- investment income decreased to $17.2 million (2015: $21.3 million) due to a period of sustained low interest rates, a very low risk investment profile, and the requirement to fund $112.5 million in dividend and fee payments to government which decreased the investment balance.
- ARPC renewed its retrocession program on 1 January 2016; the gross costs for the 2015–16 financial year decreased to $63.0 million (2015: $71.2 million) while the cover increased to $2.9 billion (2015: $2.925 billion including $305 million co-reinsurance) due to lower rates in the international reinsurance market.
- the Commonwealth guarantee fee remained stable at $55 million.

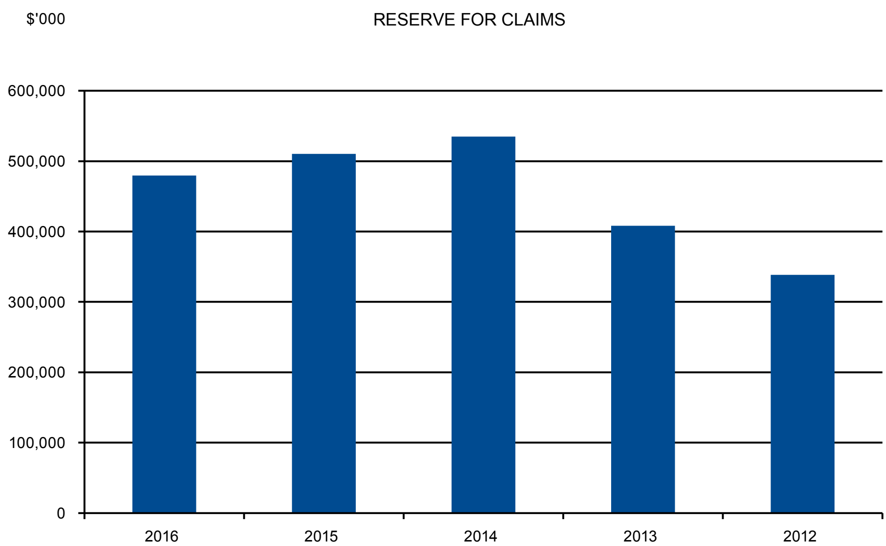
- operating expenses including acquisition costs for 2016 are $8.2 million, an increase on 2015 but continue to be lower than 2014 (2015: $8.0 million and 2014: $8.5 million). Operating expenses included offsetting factors such as additional costs incurred due to the relocation of the office from Canberra to Sydney and cost savings from vacant positions as a result of the relocation.
  - the gross expense ratio (which is acquisition costs plus operating costs divided by gross earned premium) of 6.5 per cent has increased (2015: 6.2 per cent) due to a 2.5 per cent increase in expenses and a 1.5 per cent decrease in earned premiums, due to soft market conditions in commercial property insurance.
- the reserve for claims now stands at $479.6 million (2015: $510.5 million). The reduction is owing to dividends paid to the Australian Government exceeding operating results for the year. This is forecast to fall again during 2016/17 with payments to the Australian Government to be $147.5 million (Guarantee Fee $55.0 million, Capital Holding Fee $35.0 million and a dividend of $57.5 million).

Reserves

Total equity is $503.7 million (2015: $537.7 million) after dividend payments of $57.5 million and an operating surplus of $23.5 million. The reserve for claims is now $479.6 million (2015: $510.5 million) and the reserves trend is illustrated in Figure 2.9 below. The claim reserve is supported by additional funding for claims from the $2.9 billion retrocession program, and the $10 billion Commonwealth guarantee.

During 2016, ARPC reduced the claims handling reserve of $27.2 million to $24.0 million, as per ARPC policy. The claims handling reserve ensures sufficient funds are set aside to allow ARPC to finalise any claims and reinsurance recoveries following cessation of the scheme.

Figure 2.9: ARPC reserve for claims



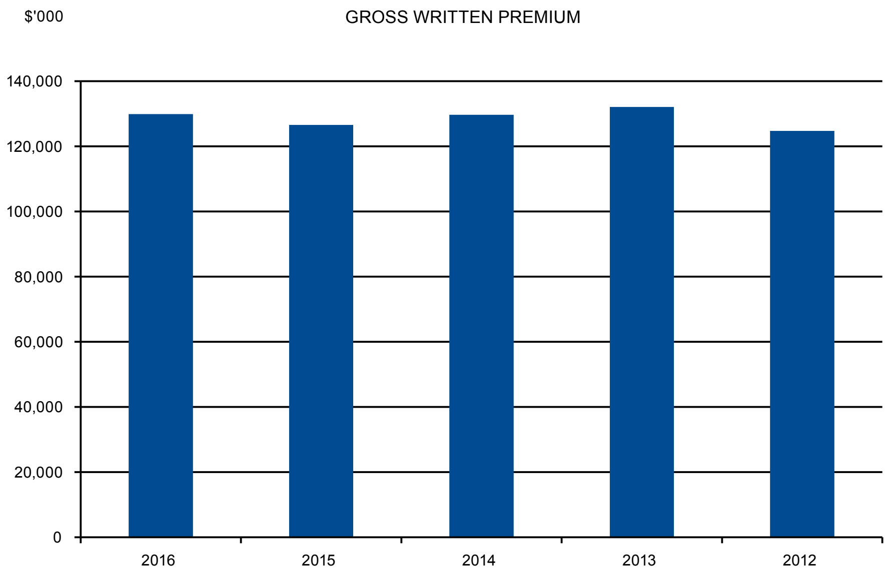
Gross written premium (GWP)

The movement in GWP is a function of three factors. The first is market activity with regard to asset developments and their associated business risks, where assets are continuously coming on-line or being decommissioned. The second is the movement of primary insurance premium rates in the insurance cycle. Owing to competitive market forces, insurance premium rates tend to move up or down over a period of time. Finally, the rates charged by ARPC. ARPC charges primary insurers a percentage of the premium they charge policyholders based on the tier which applies to where property is located. ARPC rates increased from 1 April 2016. This is the first time this has occurred since the establishment of the Scheme.

During 2015–16, insurers continued to lower premiums charged for eligible policies and this has kept ARPC's GWP relatively benign.

The GWP growth is represented in Figure 2.10 below.

Figure 2.10: ARPC gross written premium



Investment assets

ARPC managed investments internally in 2015–16. ARPC's investment strategy complies with the PGPA Act. All investments are held in ARPC's name.

ARPC's investment funds are held in cash and term deposits.

ARPC's investment objectives are:

- the retention of capital;
- funds are available at short notice; and
- investments provide the best rate of return available.

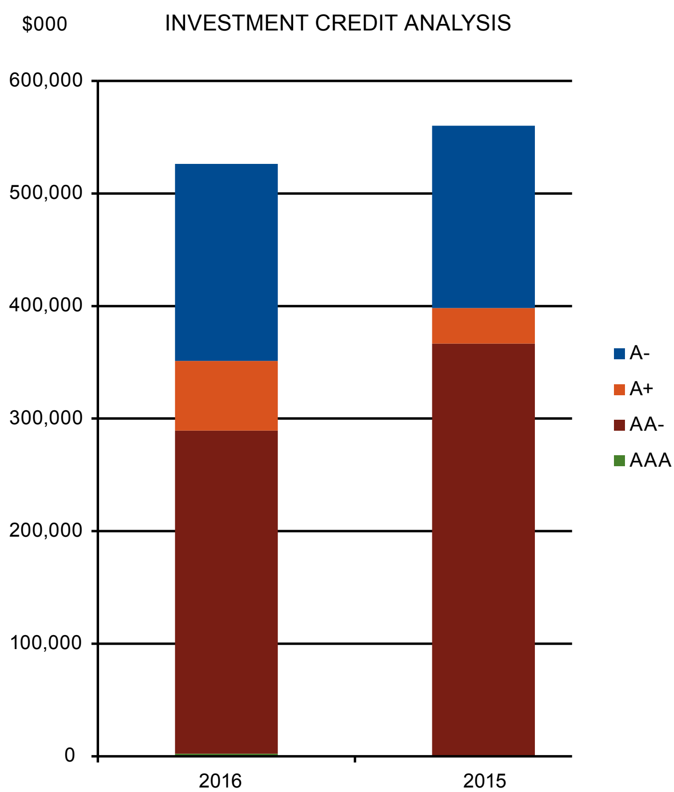
The benchmark return for ARPC is the Reserve Bank of Australia (RBA) official cash rate plus 0.5 per cent for internally managed cash deposits

ARPC's cash investments are held by Australian financial institutions with Standard and Poor's (S&P) credit ratings between A- and AAA.

At 30 June 2016, ARPC held $524.0 million in term deposits and $2.3 million in cash (2015: $559.5 million and $0.6 million respectively).

Figure 2.11 illustrates ARPC's investments by credit rating category.

Figure 2.11: Investments by credit rating



Investment income

The investment income for 2015-16 is a good result given the continued low interest rate environment experienced for the financial year.

The official cash rate was 1.75 per cent at 30 June 2016 compared to 2.0 per cent for last year. The medium-term outlook is for official interest rates to remain low which may have a downward impact on cash deposit rates over the coming year.

Investment income fell to $17.2 million (2015: $21.3 million) due to a period of sustained low interest rates, a very low risk investment profile, and the requirement to fund $112.5 million in dividend and fee payments to government, which decreased the investment balance.

The maturity of funds invested is illustrated in Figure 2.12.

Figure 2.12: Investments by maturity

Influences on future performance

ARPC's two sources of income are reinsurance premiums and investment income on its pool of retained earnings, which is set aside to meet claims.

Reinsurance premiums charged by ARPC are expressed as a percentage of the cedant's premiums. Therefore, ARPC's premium income is subject to insurance market cycles, even though our rates remain stable.

We expect insurance market premium rates will continue to fall short-term if there continues to be fewer major natural catastrophes. However, ARPC will see the increased rates that came into effect on 1 April 2016 flow through for the upcoming year.

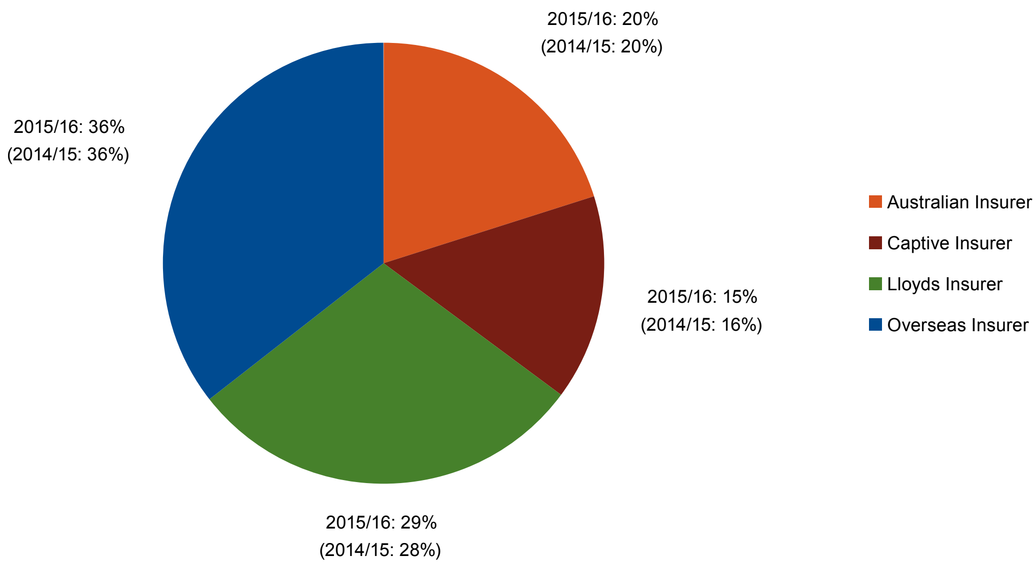
ARPC's pool of retained earnings has fallen in recent years owing to the requirement to pay significant dividends and fees to the Australian Government. This level will continue for 2016/17 and 2017/18 where dividends and fees will be $147.5 million annually over the next two years. Investment income is expected to decrease in the coming year, as we remain in a period of sustained low interest rates and as a result of a reduction in the pool of retained earnings to meet Australian Government payment obligations. On this basis, ARPC's pool of retained earnings will continue to decrease in the medium term.

Active client reinsurance agreements

ARPC's active reinsurance agreements (or treaties) with cedants increased during 2015–16 to 235 (2014–15: 232) as a result of requests for terrorism reinsurance from several Chinese insurers with new risks in Australia. Australian cedants represent 20 per cent of the total active treaties and continue to contribute 88 per cent of ARPC written premium.

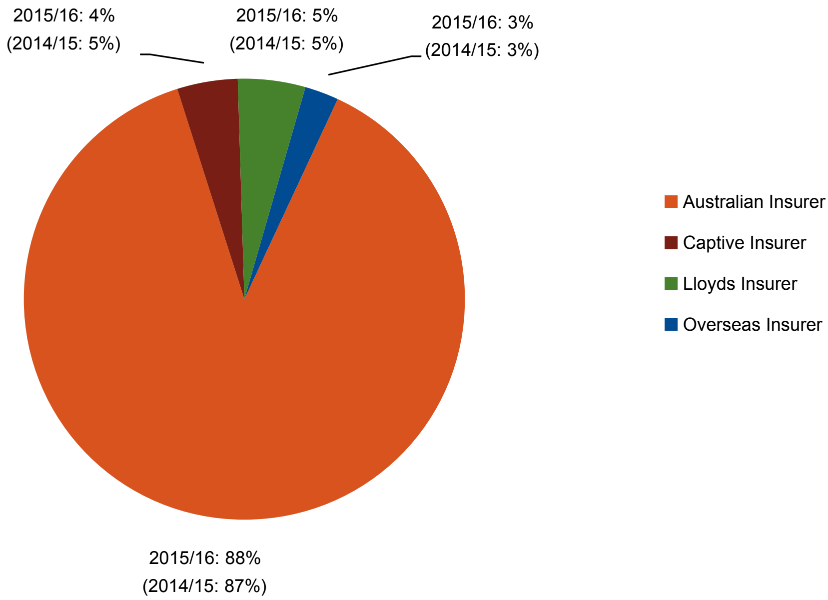
The percentage split between each of the categories is illustrated in Figure 2.13 below.

Figure 2.13: Active client reinsurance agreements 2015/16



The trend of GWP, as reported by the cedants, is measured by cedant type, premium by tier, premium by state and premium by business class. Figure 2.14 illustrates the GWP by cedant type.

Figure 2.14: ARPC gross written premium by insurer client type



Figures 2.15, 2.16 and 2.17 illustrate that the GWP by tier, state and business class between 2011 and 2016 has remained stable with the majority of exposures in Tier B followed by Tier C.

Figure 2.15: ARPC Gross written premium by tier

	Actual				
	2015-16	2014–15	2013–14	2012–13	2011–12
	%	%	%	%	%
Tier A	18%	18%	18%	19%	20%
Tier B	57%	56%	56%	55%	54%
Tier C	25%	26%	26%	27%	26%
Total GWP $ ‘000	129,846	126,568	129,642	132,093	124,709

*Figure 2.16: ARPC Gross written premium by state**

	Actual				
	2015-16	2014-15	2013–14	2012–13	2011–12
	%	%	%	%	%
NSW	31.9%	31.8%	30.3%	30.2%	31.0%
VIC	23.1%	22.5%	22.4%	21.3%	21.6%
QLD	20.5%	20.3%	21.4%	21.7%	21.9%
WA	13.4%	14.4%	14.3%	14.9%	13.5%
SA	7.1%	7.1%	7.5%	7.7%	7.8%
TAS	1.5%	1.3%	1.3%	1.5%	1.6%
NT	1.3%	1.5%	1.6%	1.6%	1.3%
ACT	1.2%	1.1%	1.2%	1.2%	1.2%
Total GWP	129,846	126,568	129,642	132,093	124,709
Cumulative Total	1,423,149	1,293,303	1,166,735	1,037,093	905,000

*Figure 2.17: ARPC Gross written premium by business class**

	Actual				
	2015-16	2014-15	2013–14	2012–13	2011–12
	%	%	%	%	%
Fire/ISR/BI	84%	83%	83%	82%	81%
Contract Works	7%	9%	7%	7%	9%
Burglary	4%	4%	4%	4%	4%
Miscellaneous Accident	2%	2%	2%	2%	2%
Mobile Plant	2%	2%	3%	3%	3%
Glass	1%	1%	1%	1%	1%
Farm	0%	0%	0%	0%	0%
Total GWP $ ‘000	129,846	126,568	129,642	132,093	124,709
Cumulative Total	1,423,149	1,293,303	1,166,735	1,037,093	905,000

STATISTICS

Figure 2.18 shows the steady growth in premium revenue for ARPC since 2013, which is similar to the growth of our cedants' gross written premium (GWP) and their aggregate sum insured. The steady growth is indicative of ARPC's portfolio that mainly consists of insurance policies covering commercial risks and small and medium enterprises (SME's) that are less affected by pricing fluctuations.

Insurance risk report

Figure 2.18 shows a snapshot of ARPC's insurance risks as reported by the cedants during 2015-16 and is shown on the RISe systems at 30 June 2015.

Figure 2.18: Insurance risk report 2015-16

Underwriting Year	ARPC Premium Revenue ($ million)	Cedant Sum Insured ($ million)	Cedant GWP ($ million)	ARPC Premium as % of GWP
2008-09	105.7	2,526,346.4	2,995.5	3.5%
2009-10	107.4	2,658,204.9	2,971.2	3.6%
2010-11	112.0	2,963,559.9	3,159.2	3.5%
2011-12	124.7	3,080,062.0	3,518.6	3.5%
2012-13	129.9	3,009,662.0	3,712.1	3.5%
2013-14	126.7	3,114,901.2	3,610.1	3.5%
2014-15	128.6	3,425,055.7	3,662.9	3.5%
2015-16	129.4	*	3,479.7	3.7%

* The 2015-16 risk reports are submitted into RISe from July 2016 until September 2016. Therefore 2016 exposure information is not available as at 30 June 2016.

Figure 2.19 shows the breakdown of premium income and sum insured by tier, indicating that the majority of ARPC's exposure is located within Tier B, closely followed by Tier C. This is consistent with ARPC's portfolio being mainly 'business package' risks located in the suburban areas followed by ISR policies for major infrastructure in rural areas.

Figure 2.19: Insurance Risk Report for 2014-15 by tier, reported during 2015-16

Tier	ARPC Premium Revenue ($ million)	Cedant Sum Insured ($ million)	Cedant GWP ($ million)	ARPC Premium as % of GWP
A	23.5	346,986	195.5	12.0%
B	71.6	1,729,616	1,790.3	4.0%
C	33.5	1,348,453	1,677.2	2.0%
Total	128.6	3,425,056	3,662.9	3.5%

Figure 2.20 indicates that the vast majority of ARPC's exposure is located in rural Western Australia, rural Queensland, and New South Wales. However, the majority of the premium income is derived from NSW followed by Victoria due to the higher values located in Tier B.

Figure 2.20: Insurance risk report for 2015–16 by state, as at 30 June 2016

State	ARPC Premium Revenue ($ million)	Cedant Sum Insured ($ million)	Cedant GWP ($ million)	ARPC Premium as % of GWP
NSW	40.9	1,104,044	1068.6	3.8%
VIC	28.9	701,116	733.3	3.9%
QLD	26.1	742,677	826.6	3.2%
WA	18.5	488,220	622.4	3.0%
SA	9.2	215,930	234.7	3.9%
NT	1.91.7	49,768	72.0	2.6%
TAS	1.7	72,807	65.6	2.5%
ACT		50,495	39.5	3.7%
Total	128.6	3,425,056	3,662.9	3.5%

SIGNIFICANT EVENTS

There have been no developments in the 2015–16 financial year that have significantly affected or may significantly affect:

- ARPC's operations in future financial years or
- the results of those operations in future financial years.

RETROCESSION

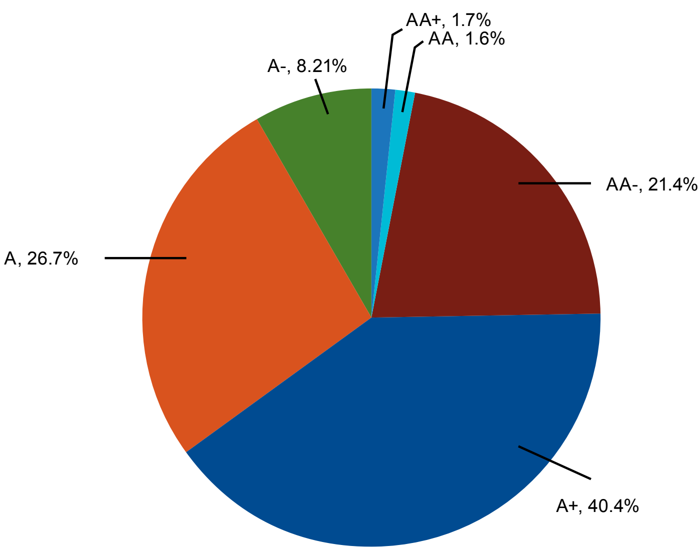
ARPC's retrocession program commenced to provide the following benefits:

- increase the overall capacity of the scheme;
- position the Australian Government further from the risk of terrorism losses under the scheme;
- reduce the likelihood that a reduction percentage will be required; and
- encourage the return of the commercial terrorism insurance and reinsurance market for Australian risks.

Retrocession placement

The retrocession reinsurance program is placed on a calendar year (CY) basis. There are currently 61 participants in the retrocession program drawn from the Australian, Lloyds, European, Bermudan, USA and Asian markets.

Figure 2.21: Retrocession program counterparty credit rating CY 2016.



Source: Guy Carpenter

The 2016 CY retrocession program of $2.9 billion (2015: $2.925 billion including $305 million of co-reinsurance) was placed in three layers in excess of $350 million (2015: $400 million). Losses in excess of the retrocession program are covered by the Commonwealth guarantee. Refer to Figure 2.4 in this chapter for illustration of the scheme's funding capacity.

Retrocession program cost

The retrocession program commences on 1 January each year. Retrocession expense is recognised using the 365th method, with the expense incurred for the 12 months to 30 June 2016 totalling $63 million for the 2015–16 period (2014–15: $71.2 million). The total retrocession commission income recognised by ARPC for 2015–16 was $6.1 million (2014–15: $7 million). The retrocession program that began on 1 January 2016 is less expensive than the 2015 program. This reduction in cost was achieved through reduced rates charged by retrocessionaires from 1 January 2016.

EXPOSURE RISK MANAGEMENT

A key government expectation is that ARPC should seek to be in a position to advise the Minister of the likely insured losses to the scheme in the event of a DTI. This estimate will then inform the calculation of an appropriate reduction percentage.

To address this issue, ARPC developed the capability to:

- analyse aggregate sum insured information
- estimate its probable losses in the event of a DTI
- provide evidence-based advice to the Minister on an appropriate reduction percentage.

Aggregate sum insured reports

ARPC's reinsurance agreement requires each cedant to provide an annual aggregate sum insured report. The report summarises our cedants' aggregate sum insured amounts at postcode level and at street level from some Tier A locations. The information is uploaded by our clients directly into ARPC's RISe system, which enables ARPC to analyse the distribution of exposure risk across Australia. The analysis includes the ability to report aggregate sum insured exposures.

Figures 2.22, 2.23 and 2.24 provide an overview of ARPC's total exposure based on information provided by insurer clients.

Figure 2.22: Aggregate sum insured amounts by tier

	2014-15 $ trillion	2013–14 $ trillion	2012–13 $ trillion	2011–12 $ trillion
Tier A	**0.3**	0.3	0.3	0.4
Tier B	**1.7**	1.5	1.5	1.5
Tier C	**1.4**	1.3	1.2	1.2
Total aggregate sum insured $ '000	**3.4**	3.1	3.0	3.1

Figure 2.23: Percentage of aggregate sum insured by tier

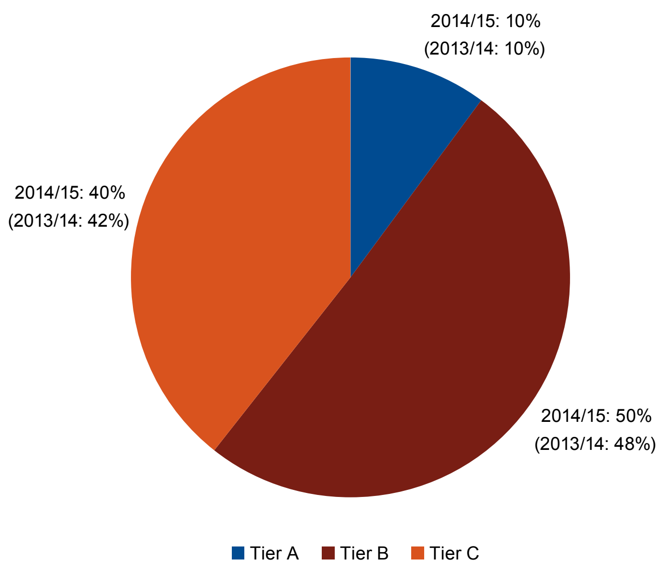
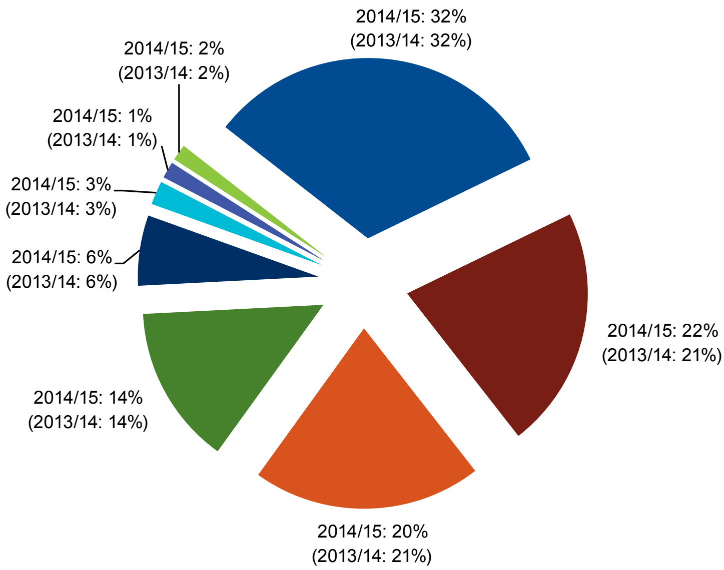


Figure 2.24: Aggregate sum insured by state reported during July to September 2015



The exposure report by state allows ARPC to check the correlation between state exposures and collected premiums, and the relative size of assets in each state.

Three dimensional blast model

The sum insured aggregate database forms the foundation of the three dimensional blast model that has been developed by GeoScience Australia (GA). This 3D Blast model is intended to accurately analyse pressure waves and resulting damage from blasts in most tier A locations. Continued improvements to the 3D blast model are being undertaken and extended to include Brisbane, Adelaide and Perth.

Plume model

ARPC, in conjunction with GA and the Department of Defence, maintains its capability to analyse exposure and potential damage from the release of a biological or chemical agent within Sydney and Melbourne CBD locations. This capability draws on the expertise of several government agencies including GA, Bureau of Meteorology, Defence Science and Technology Group and the Australian Federal Police, as well as external consultants.

PART 03

Annual performance statement

Annual Performance Statement

INTRODUCTORY STATEMENT

This annual performance statement is provided for ARPC as required under section 39(1)(a) of the PGPA Act and (other applicable legislation) for the 2015-16 financial year.

This annual performance statement presents ARPC's performance in accordance with section 39(2) of the PGPA Act and is based on properly maintained records.

As outlined in Chapter 1, this Annual Report has been approved by ARPC Members in accordance with a resolution of the Members.

ENTITY PURPOSE

ARPC continues to support the original scheme policy objectives and, through our purpose and role, works to strengthen our connection with stakeholders. Our overarching objective is to become a trusted advisor to government and our stakeholders on terrorism risk insurance (and reinsurance) and through this to also advise on the financial management of catastrophes.

We have articulated our purpose and role as follows:

Purpose: to protect Australia from economic losses caused by terrorism catastrophe (Purpose 1).

Role: we use our expertise to provide cost effective reinsurance to support the economic resilience of the nation.

RESULTS

Performance criterion

In compliance with the PGPA Act, we must remain financially sustainable, managing our public resources in an efficient, effective and ethical manner as we fulfil our purpose.

There are four key Corporate Plan activities (or performance criterion) that ARPC has undertaken over the reporting year to facilitate achieving our purpose. These can be found on page 11 of the 2015-19 ARPC Corporate Plan. These are:

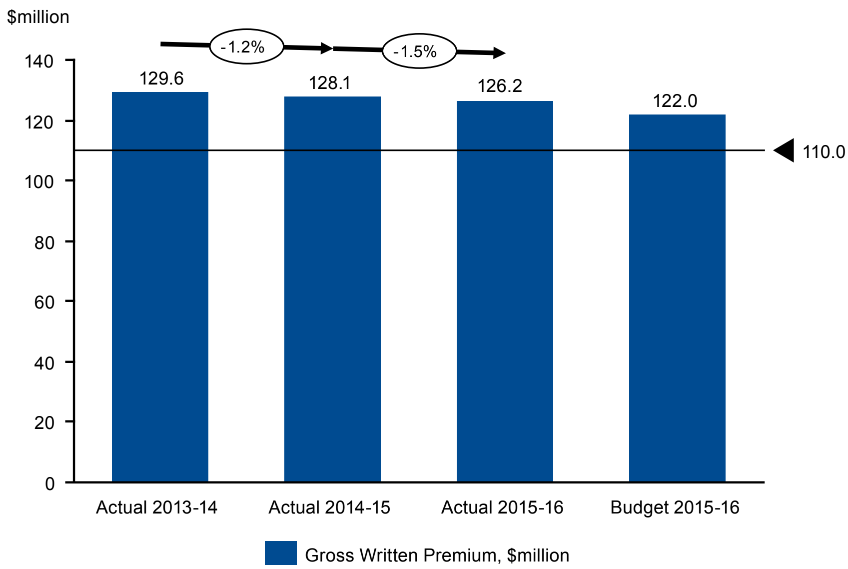
1. Provide cost effective reinsurance for eligible terrorism losses;
2. Encourage private sector participation through retrocession reinsurance;
3. Compensate the Australian Government; and
4. Maintain financial sustainability.

Performance criterion — Provide cost effective reinsurance for eligible terrorism losses

Description

This is our functional obligation as prescribed by section 10 of the TI Act. Over the period covered by the corporate plan, success for this activity will be measured by ARPC's total premium income. The target premium income for the forecast period was $110.0 million per annum.

Result



Our objective for Measure 1 for 2015-16 is to achieve actual premium income greater than the corporate plan target of $110.0 million. We also have a financial budget for premium income for 2015-16 which is $122.0 million.

Measure 1: To support financial sustainability, achieve higher than target premium income in each plan period.

Source

Measure 1 – Premium Income, ARPC 2015-19 Corporate Plan, page 12.

The target measure supports our purpose (Purpose 1) as it sets the threshold for performance in our functional obligation under s10 of the TI Act to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)'. ARPC receives premium income through the reinsurance contracts we establish with our cedants.

The level of premium income demonstrates our performance against this measure.

We also have a financial budget for premium income, set at a higher level, which reflects our forecast performance for the reporting period.

Our premium income (shown as premium revenue in our financial statements) in 2015-16 was $126.2 million which was $16.2 million better than our corporate plan target, and $4.2 million higher than our financial budget.

Performance criterion — Encourage private sector participation through retrocession reinsurance

Description

Market failure was the trigger for the Australian Government's intervention in the terrorism insurance market, following events in the USA in September 2001. Successive triennial reviews have confirmed that the reinsurance market has insufficient capacity to offer uniform terrorism insurance coverage at affordable prices for the foreseeable future. Consequently, encouraging private sector participation remains a key policy objective for ARPC's terrorism reinsurance scheme.

We use our premium income to purchase retrocession (reinsurance cover from private sector reinsurers) and to compensate the Australian Government. Through our access to retrocession and the Commonwealth guarantee, in 2016 we have $13.4 billion total funding available for losses arising from a DTI. This compares to the estimated probable maximum loss for a single DTI of $7 billion.

Since 2009, ARPC has purchased reinsurance from global terrorism insurers transferring a proportion of the risk to the private market. This is designed to encourage private sector participation in risk sharing and reduce the risk to government and the Australian economy. Reinsurers or 'retrocessionaires' provide private cover for the first tranches of claim payments.

Each year, ARPC places a program of retrocession with major global reinsurers, negotiating a placement that provides value-for-money while encouraging maximum participation of global insurers. Since 2009, ARPC has only been able to procure a capacity of about one third of the estimated probable maximum loss of an event in the Sydney CBD, but has secured participation of all major global reinsurers.

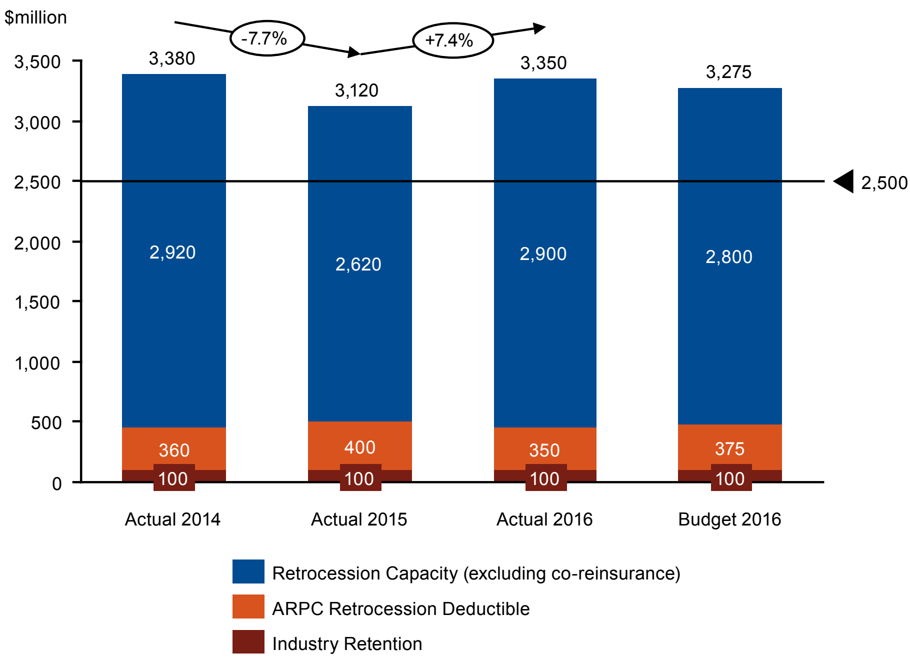
To measure success for this activity, ARPC will measure total reinsurance capacity purchased each calendar year and the total purchase cost, while continuing to monitor the number of participating retrocessionaires.

Measure 2: To protect the government from losses, purchase more than $2.5 billion in retrocession capacity each program period.

Source

Measure 2 – Retrocession program capacity per calendar year, ARPC 2015-19 Corporate Plan, page 14.

Result



• Assumes no change to the current scheme such as expansion of coverage to bio-chemical events

Our objective for Measure 2 for the 2016 calendar year is to achieve a retrocession program capacity greater than the corporate plan target of $2,500 million ($2.5 billion). We also have a $2,800 million ($2.8 billion) budget for purchasing retrocession capacity for the 2016 calendar year.

The target measure supports our purpose (Purpose 1) to 'provide insurance cover for eligible terrorism losses (whether by entering into contracts or by other means)' by increasing our funds available for claims. ARPC uses the retrocession program capacity as the first layers of funding for eligible terrorism losses before the Australian Government guarantee is drawn upon. This increases our capacity to fund losses without drawing on the guarantee and fulfils our purpose of meeting claims through reinsurance contracts we establish with our cedants. The retrocession capacity demonstrates our performance against this measure. The target sets a threshold or minimum risk appetite for minimum program size.

We also have a financial budget for retrocession program capacity, set at a higher level, which reflects the retrocession capacity that ARPC can afford to purchase.

Our retrocession capacity for the 2016 calendar year was $2.9 billion which was $400 million higher than our corporate plan target, and $100 million higher than our financial budget.

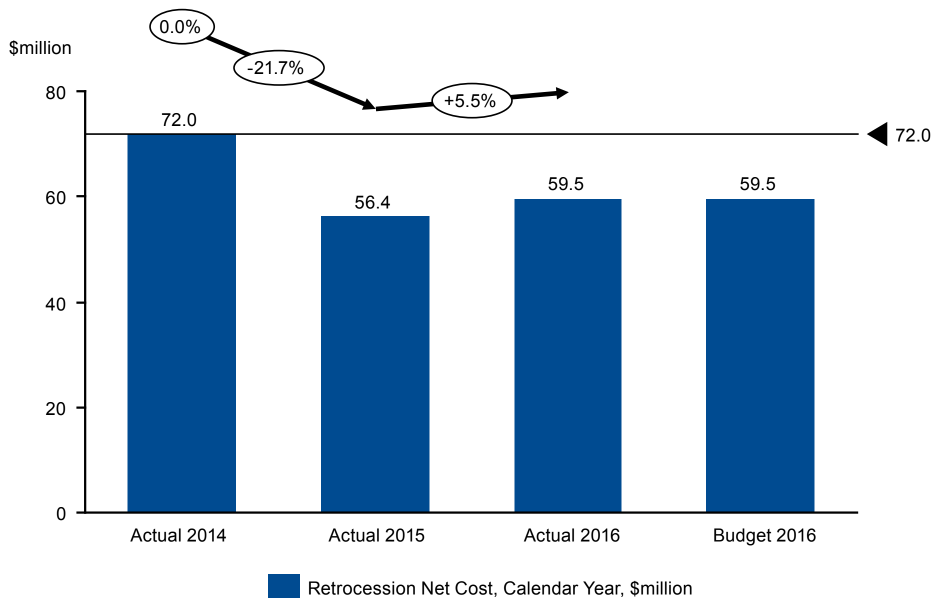
We also aim to be cost effective. We therefore set a budget each year for the purchase of retrocession and seek to maximise our capacity within the available budget.

Measure 3: Our objective is to maximise capacity purchased within the budget we have available in each program period.

Source

Measure 3 – Retrocession program cost per calendar year, ARPC 2015-19 Corporate Plan, page 15.

Result



Our objective for Measure 3 for the 2016 calendar year is to achieve value-for-money each year. Specifically, we aim to purchase the maximum capacity within the budget allocated by ARPC's Board each year for retrocession, but ideally spending no more than the corporate plan target of $72.0 million. We also have a financial budget for purchasing retrocession program capacity for the 2016 calendar year which is $59.5 million.

Our retrocession program cost for the 2016 calendar year was $59.5 million which was $12.5 million lower than our corporate plan target, and equal to our financial budget.

Performance criterion — Encourage private sector participation through retrocession reinsurance

Measure 4: To meet our obligations, the target is to deliver the government payments in each plan period. The payments are set by Ministerial Direction.

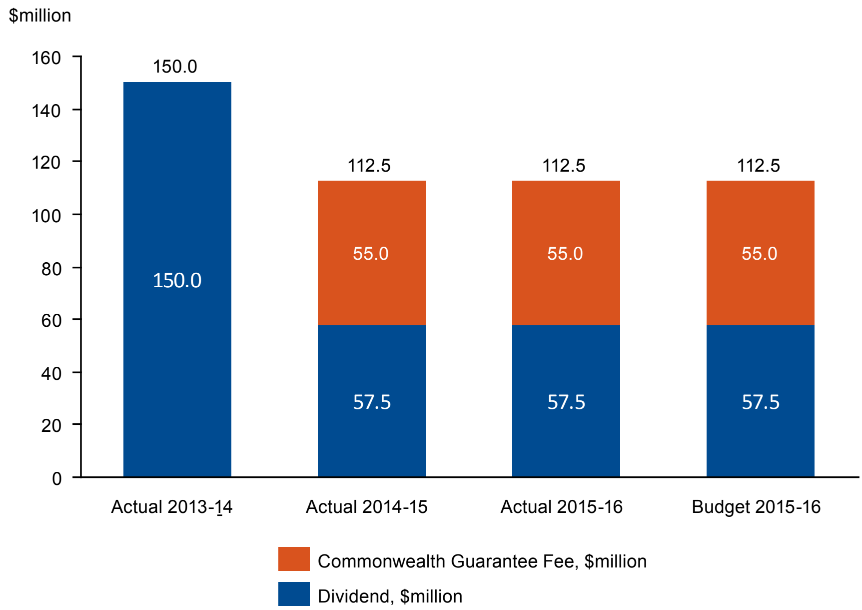
Description

ARPC pays the Australian Government a fee for the use of the guarantee as well as a dividend to reflect the Australian Government ownership of ARPC.

Source

Measure 4 – Payments to government, ARPC 2015-19 Corporate Plan, page 16.

Result



ARPC delivered the payments to government in 2015-16 as per Ministerial Directions.

Performance criterion — Maintain financial sustainability

Description

As is the case with any insurer, in order to maintain operational effectiveness, ARPC must remain financially sustainable by having a governance framework and internal financial controls to manage our net assets.

Key factors impacting ARPC's financial sustainability, as measured through our net assets, are:

- our premium rates and premium income;
- our investment return;
- the size and cost of our retrocession reinsurance program;
- any claims costs associated with a Declared Terrorist Incident (DTI); and
- the size, structure and timing of fees and dividends payable to the Government.

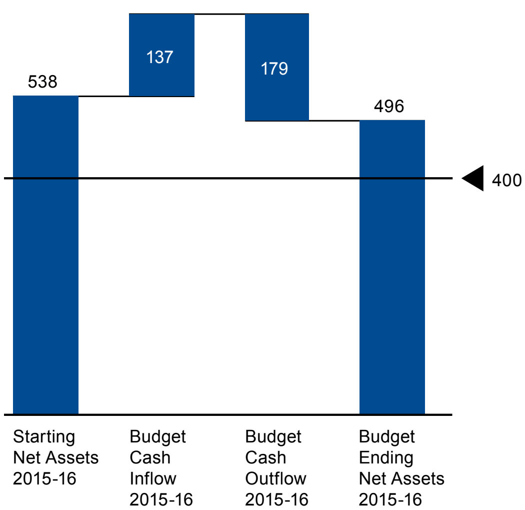
To assess our financial sustainability, ARPC will measure net assets, which is the final balance as impacted by all of the above key factors. ARPC notes that future years will see a net cash outflow due to the relative size of the ongoing payments to Government.

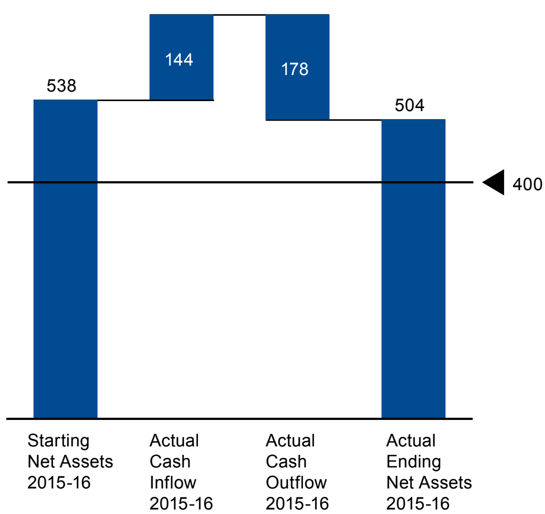
Measure 5: Maintain sufficient net assets to support the retrocession deducible ($400 million in 2015).

Source

Measure 5 – Financial sustainability, ARPC 2015-19 Corporate Plan, page 17.

Result





Our objective for Measure 5 for 2015-16 is to achieve actual net assets greater than the corporate plan target of $400 million (which was the retrocession deductible in the 2015 calendar year). We also have a financial budget for net assets for 2015-16 which is $496 million. ARPC has a deductible under our retrocession program, and our target net assets for the 2015-16 plan was set to the minimum required to fund the deductible from ARPC net assets. That is, the first $400 million of claims from a DTI must be met by ARPC capital, before the retrocession program coverage can be called upon.

Our net assets in 2015-16 were $504 million which was $104 million higher than (better than) our corporate plan target, and $8 million better than our financial budget.

The 2016-17 Corporate Plan sets a new range for net assets. Based on development of a new capital management plan with analysis by ARPC consulting actuaries, the Board has determined that net assets should remain within the $510 million to $860 million range. $510 million is the minimum prudent level of capital recommended by the Board. This represents one retrocession retention plus one year's premium income to reinstate retrocession and pay for ongoing operating costs. $860 million is the target capital recommended by the Board. This represents two retentions plus one year's premium revenue to reinstate retrocession and to pay for ongoing operating costs.

ARPC expects net assets to remain below the minimum prudent level of capital until 2019-20 under current Australian Government directions.

ANALYSIS OF PERFORMANCE AGAINST PURPOSE 1

The ARPC purpose is to protect Australia from economic losses caused by terrorism catastrophe. The TI Act requires ARPC to do this by providing insurance cover for eligible terrorism losses. During the 2015-16 year, while meeting Ministerial Directions to provide payments to Government.

ARPC has met all of its obligations and achieved better-than-budget performance across all performance criteria.

During the period, the following factors impacted positively and negatively upon ARPC's performance:

1) Reductions in premium rates in commercial insurance markets. As ARPC premiums are a percentage of insurer premiums for commercial property insurance, ARPC is subject to price fluctuations in the commercial insurance market. A long-term decline in premium rates continues to have a minor impact on ARPC's premium revenue.

2) Increases in capacity and price reductions in price for retrocession reinsurance. As ARPC purchases retrocession from global markets, it has benefited from a general price reduction in those markets. ARPC would ideally purchase a higher level of retrocession capacity, but is constrained by the size of payments to government. ARPC has managed its purchase of retrocession by converting price reductions to incremental increases in capacity.

3) ARPC has consolidated its operations into one new Sydney office. The 2015-16 year included restructuring costs as well as establishment costs at new premises. These were delivered within budget.

4) The 2015 Triennial Review recommended several enhancements to the scheme. During 2015-16, a premium increase was implemented as per recommendation 8 of the Triennial Review Report effective 1 April 2016.

5) Payments to Government in 2015-16 of $112.5 million are equivalent to 89 per cent of premium revenue in the period. This has eroded ARPC's net assets to a level below which the ARPC Board judges to be a minimum prudent level.

PART 04

Our people

Our people

LEADERSHIP TEAM

ARPC's senior executive team is headed by the Chief Executive, who was appointed by the corporation under the provisions of the TI Act.

Dr Christopher Wallace
BEc (Hons) PhD(Econ), ANZIIF (Fellow), CIP, GAICD
Chief Executive

Chris is an insurance executive with experience in general insurance, workers compensation, health insurance, and reinsurance. He has worked extensively in insurance underwriting and claims management roles within insurers, and as a consultant to the insurance industry. Chris is also a non-executive director of MIPS Insurance Pty Ltd, a medical indemnity insurer.

Through his role with ARPC, Chris is also a member of the OECD High Level Advisory Board for the Financial Management of Large Scale Catastrophe Risks. Previous professional roles include being General Manager Workers Compensation at GIO, Executive Director at Ernst & Young and most recently as General Manager Benefits Management at HCF. Chris has a doctorate in economics, specialising in general insurance pricing and general insurance strategy. He is a fellow of the Australian and New Zealand Institute of Insurance and Finance, a Certified Insurance Professional and a Graduate of the Australian Institute of Company Directors.

SENIOR EXECUTIVE TEAM

Joshua Everson
MAppFin, B.Ec (Hons) AICD Affiliate
General Manager, Governance, Risk and Compliance

Joshua joined ARPC in May 2016. His career has spanned diverse roles within the Australian Public Service and financial institutions. Joshua's recent previous roles include being Senior Economist with ASIC, a Policy Advisor with ASX, and more recently Director Financial Markets Regulatory Change at Westpac.

As ARPC's Board Secretary, Joshua provides support to the Board and Audit and Compliance Committee, while also being the key touch point for liaison with the Treasury, the Minister's office and other government stakeholders. Joshua designs and maintains high quality processes for all corporate governance practices such as strategic planning, risk management, assurance monitoring and, policy and legislative compliance.

Joshua is responsible for business continuity planning including ARPC's response to any potential declared terrorist incident. Joshua is also responsible for Annual Report and Corporate Plan production and publication.

Joshua holds a Bachelor of Economics (Honours) from the University of Newcastle NSW and a Master of Applied Finance from Macquarie University. He is currently an Affiliate of the Australian Institute of Company Directors.

Michael Pennell
BE, AMP (Wharton) ANZIIF Fellow, CIP, MIE Aust
Chief Underwriting Officer

Michael has been with ARPC since its establishment in 2003. In his current role, he is responsible for arranging contracts of reinsurance with insurers that issue eligible insurance contracts. Michael has extensive reinsurance industry experience, having held reinsurance management roles previously with Swiss Re and Gen Re. He started his early career as a civil engineer.

Michael assists insurers and brokers to understand the scheme and is responsible for negotiating and implementing ARPC's annual retrocession program. Michael leads various projects that enable ARPC to develop and enhance its loss estimation capabilities.

Michael serves on the reinsurance Faculty Advisory Board of the Australian and New Zealand Insurance Institute, and teaches reinsurance at the Insurance Institute's annual Reinsurance Study Course Seminar.

Michael holds a Bachelor of Engineering from UTS Sydney, has completed the Advanced Management Program at University of Pennsylvania (Wharton School), and also is a Fellow and Certified Insurance Professional with ANZIIF.

John Park
B.Ec., MBA (Exec), CA, ANZIIF (Fellow), CIP
Chief Financial Officer

John is a Chartered Accountant and has more than 20 years experience as a finance executive in the insurance and reinsurance industry. John joined ARPC in June 2016. John's career includes previous roles as Finance Manager for Gen Re, Financial Controller for HCF, CFO for MGIC, and more recently as Financial Controller for Great Lakes Australia which is part of Munich Re.

John oversees the finance, investments, human esources and technology teams.

His primary role is responsibility for ARPC compliance with all accounting and reporting requirements, while maintaining the stewardship of the net assets of the corporation.

John holds a Bachelor of Economics from Macquarie University, an Executive MBA from AGSM at the University of NSW, is a Chartered Accountant and a Fellow and Certified Insurance Professional with ANZIIF.

Michael Stallworthy
MBA, ANZIIF Fellow, CIP
General Manager Insurance Audit and Claims

Michael has been with ARPC since 2005. Michael is an experienced reinsurance executive. His early career included being an underwriter at Lloyd's of London, and holding reinsurance management roles with GIO Re and Allianz. Michael is also currently the Chair of the Audit & Risk Committee for the Inspector General of Taxation.

Michael is responsible for conducting ARPC's insurance audit program and for developing and maintaining our claims management capability, claims processes and procedures. As part of his role, he visits cedants over a rolling two-to-three year period to conduct audits on their compliance with the ARPC reinsurance agreement.

Michael holds an MBA from Deakin University and is a Fellow and Certified Insurance Professional with ANZIIF.

STAFFING INFORMATION

ARPC enjoys a blend of experienced staff across all levels, with a mixture of technical and specialised skills that work in collaboration.

The following three tables illustrate classification, gender and staff service length for ARPC employees as at 30 June, 2016. During 2015/2016, ARPC's Canberra operations were relocated to Sydney to be closer to our stakeholders in the insurance industry. The move also provided cost savings by enabling ARPC to operate one office instead of two. Canberra-based staff decided not to relocate to Sydney which led to the recruitment of a new team with the exception of the CEO and two long serving Sydney-based senior executives. Three senior Canberra-based executives remained with ARPC up until financial year end in principal advisory roles to assist with the transition to Sydney. These three staff members finished their service at year end and have not been included in the analysis below.

Figure 4.1: Number of permanent on-going employees by classification and gender

Classification	Male	Female	Total
ARPC level 3	-	-	-
ARPC level 4	-	-	-
ARPC level 5	1	1	2
ARPC level 6	1	3	4
ARPC EL 1	-	3	3
ARPC EL 2	2	1	3
Senior executive staff (SES)	5	-	5
Total	9	8	17

At 30 June 2016, there was one contract employee in an ARPC Level 4 role, one vacancy in an ARPC Level 5 role, and one senior executive vacancy, bringing our total number of positions to 20.

We are also developing options for one indigenous traineeship position.

Figure 4.2: Length of service by team

Staff Group	< 2 years	2– 4 years	5– 7 years	8–10 years	>10 years
Underwriting	1	-	-	-	1
Insurance Audit & Claims	1	-	-	-	1
Operations	6	-	-	-	-
Governance, Risk & Compliance	4	-	-	-	-
CEO and EA	2	1	-	-	-
Total	14	1	-	-	2

The following table provides the salary scales for all non-SES staff as at 30 June 2016.

Figure 4.3: Salary scales for non-SES staff

Level	Salary band
ARPC level 1	$44,965–$50,305
ARPC level 2	$51,830–$56,929
ARPC level 3	$58,692–$63,997
ARPC level 4	$65,552–$71,067
ARPC level 5	$73,703–$80,789
ARPC level 6	$83,139–$103,767
Executive Level 1	$108,444–$128,156
Executive Level 2	$132,462–$156,613

PEOPLE AND CULTURE

The People and Culture area provides human resource (HR) advice and administrative support to ARPC staff. This area also develops and implements HR strategies and policies including:

- employment contracts and remuneration;
- performance management;
- learning and development; and
- work health and safety (WHS).

The Treasury provides payroll functions under its Memorandum of Understanding (MoU) with ARPC.

Employment Agreement

The ARPC Enterprise Agreement 2016–19 (the Agreement) came into effect on 27 May 2016, to provide employment terms and conditions for non-SES staff. SES staff employment terms and conditions are provided in individual contracts.

Performance Management System

Work is underway on a new performance management framework based on the Australian Public Service Commission Integrated Leadership System (ILS) standards and behaviours. While ARPC is not an Australian Public Service agency we adopt best practice processes relevant to our operations including the Integrated Leadership System.

During 2015–16, staff participated in performance discussions under our current performance management system (PMS). The PMS consists of a mid-year informal review and an annual performance review. Staff are rated on a five scale system from 1 (exceeds standards) to 5 (not meeting standard) with an overall rating of 1 or 2 being required for salary advancement.

Learning and development

We are committed to providing professional development for all ARPC staff to expand their skills and knowledge through a range of industry specific, role specific and personal career development training opportunities.

Development programs attend by staff during the year included:

- ANZIIF Introduction to Reinsurance;
- ANZIIF Claims Convention;
- ANZIIF Sunshine Seminar;
- NIBA Convention;
- Department of Prime Minister and Cabinet — Future Fund;
- Terrorism Insurance Pools Congress in London;
- Actuaries Institute — Enterprise Risk Management Seminar;
- Insurance Council of Australia Forum;
- ANZIIF and Finity Cyber Risk Seminar;
- OECD Conference — Financial Management of Flood Risk, Paris;
- Fringe Benefits Tax Seminar;
- Protecht User Training ;
- Diligent (Board Books) Administrator Training;
- Australian Institute of Company Directors — Evaluating the Board;
- Risk Management in Government Congress;
- Protective Security Training College Course;
- Reinsurance Discussion Group;
- Thomson Reuters — Regulatory Summit; and
- EY Fraud Awareness Training.

Study assistance

ARPC offers a study assistance program for all permanent ongoing staff. Staff members undertaking part-time study in competencies relevant to our operational requirements can access study leave and financial assistance to further develop their skills.

Participation in the study assistance program during the year included the following courses:

- Certificate IV in General Insurance; and
- Diploma in General Insurance.

Work health and safety

WHS updates are provided weekly to the Executive and regularly to the Board. No significant WHS matters were reported in 2015–16. ARPC appoints Health and Safety Representatives (HSRs) and Emergency Wardens, who are provided with formal training as required.

Wellbeing

ARPC is committed to the wellbeing of its staff through a range of initiatives as outlined below.

Employee Assistance Program

Confidential counselling and support services are available to all staff and immediate family members through the Employee Assistance Program, accessed through the Treasury.

Lifestyle payment

Eligible staff can access an annual payment towards positive lifestyle expenses through ARPC's current Enterprise Agreement. The lifestyle payment has 100 per cent participation and is used by staff participating in a range of fitness and wellbeing activities.

Staff inclusion

We hold regular all-staff meetings. These meetings provide an informal, open forum with the CEO for questions and discussions relating to ARPC business activities and operations.

Other Staff Programs

Other staff led activities included a staff funded on-site Pilates class and a staff led running group. There are also occasional social activities.

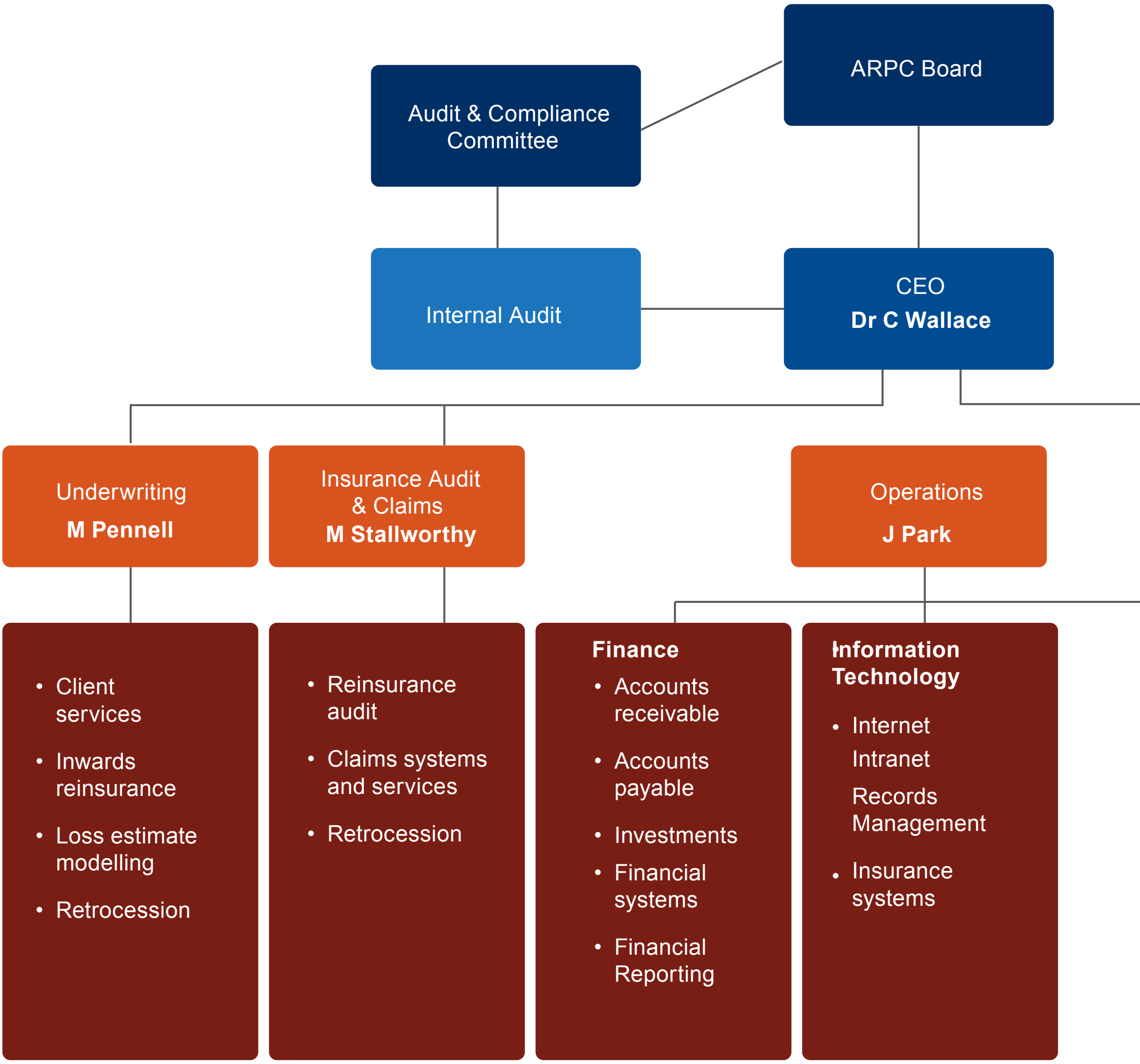
Workplace diversity program

ARPC's Diversity and Equal Employment Opportunity (EEO) policies are provided by Treasury under the MoU. We strive to provide a workplace that demonstrates diversity and EEO through our recruitment processes. We also provide flexible work-life balance opportunities, including arrangements to work from home.

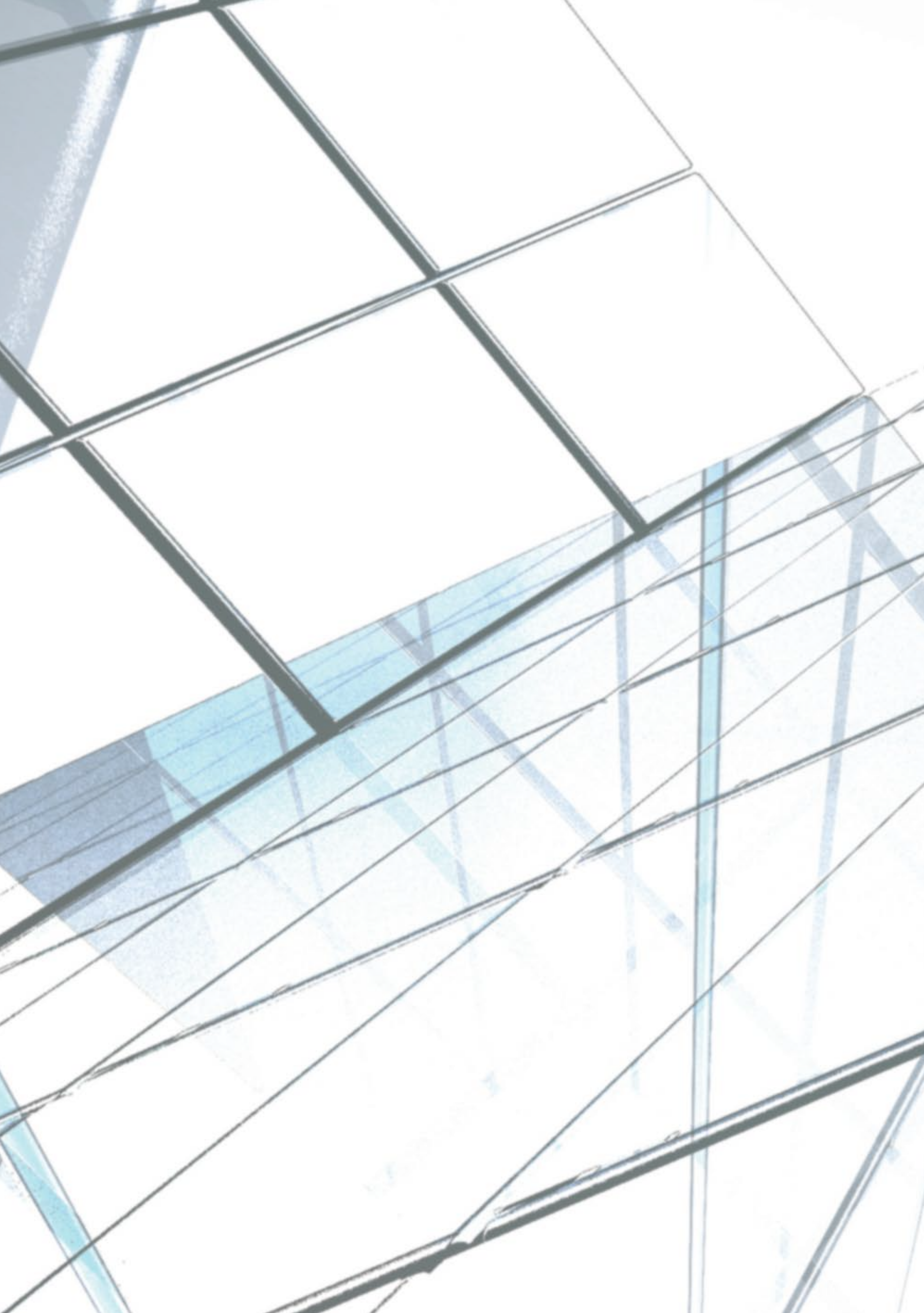
Promoting an ethical working environment

ARPC continues to promote the ARPC Values and Code of Conduct.

Figure 4.4: ARPC organisational chart




Business Performance
& Strategy
Vacant
Governance, Risk
& Compliance
J Everson
People &
Culture
• Human
resources
• Work health
& safety
• Culture
• Performance
Business
performance
• Strategy and
planning
• Projects and
initiatives
• Communications
• Stakeholder
engagement
• Research &
development
policy
• Governance
• Enterprise
risk management
• Board
secretariat
• Business
continuity
• Incident
response



Governance

Governance

GOVERNANCE FRAMEWORK

Established under the TI Act, ARPC is a corporate Commonwealth entity within the Treasury Portfolio, being subject also to obligations under the *Public Governance Performance and Accountability Act 2014* (PGPA Act).

ARPC's annual report is prepared and provided to our responsible Minister by 31 October each year in compliance with section 46 of the PGPA Act. Our annual financial statements comply with accounting standards prescribed by the PGPA rules, and these are audited by the Auditor General as soon as practicable after preparation. The financial statements can be found in Chapter 6.

Section 35 of the PGPA Act requires ARPC to prepare a Corporate Plan on a rolling four-year basis, and provide it to the responsible Minister and the Minster for Finance by 31 August each year. Under section 39 of the PGPA Act, we must also prepare an Annual Performance Statement that reports on ARPC's progress against its purpose, as stated within the preceding Corporate Plan. Our Annual Performance Statement is outlined in Chapter 3.

During the period under review, ARPC's responsible Minister was the Hon. Kelly O'Dwyer MP.

ARPC BOARD APPOINTMENT AND REMUNERATION

Part three of the TI Act prescribes the establishment of ARPC, including its powers and functions. Section 12 of the TI Act states that the corporation (subsequently referred to as the Board) must comprise a part-time Chair and at least four, but no more than six, non-executive part-time directors. Each director must be appointed by the Minister for a fixed term of no more than four years.

Under section 13 of the TI Act, the Minister must be satisfied that any candidate for appointment to the Board is of good character, with relevant qualifications and experience. For the reporting period, remuneration for Board members, including travel and meeting allowances, was provided according to the Remuneration Tribunal Determinations 2015/08 and 2015/20.

Members

For the reporting period, the Board comprised the Chair and five directors, with one unfilled vacancy. Ms Joan Fitzpatrick continued as Chair across the 2015–16 financial year. One Board member's appointment term expired on 30 June 2016.

The names and details of ARPC Board members who held office during the 2015-16 financial year are outlined below.

Ms Joan Fitzpatrick
Chair
BA (Hons) LLB, ANZIIF (Fellow), CIP, GAICD
Term: 12 September 2012 – 30 June 2017

Ms Fitzpatrick was appointed as Chair from 1 January 2013.

She is an experienced company director and leader of business success. Her executive and director experience covers the corporate, government and not-for-profit sectors and she has a strong track record of working collaboratively across different stakeholders. Ms Fitzpatrick has an extensive record of achieving successful business outcomes in complex change environments. Originally qualified as a barrister, she was attracted to a management career which began at 20th Century Fox's fast moving consumer goods enterprise in London. Ms Fitzpatrick went on to hold senior management roles in heavy manufacturing industries, large start-up projects in Europe and international insurance operations in Asia. For more than 16 years, she worked as CEO and Director of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

Ms Fitzpatrick currently works within a diverse portfolio of non-executive director roles, consulting and pro bono charity work. She is the President of ESS Superannuation Board, and her concurrent non-executive directorships include, CCI, Defence Bank, MIGA, Recoveriescorp, Sacré Coeur and SAFA. She is also a Member of the World Vision and Greenfleet Business Advisory Councils. She consults across a wide range of organisations in the areas of strategic planning, leadership, governance and risk.

Mr Tom Karp
BA (Hons), FIAA
Term: 29 August 2008 – 30 September 2016

Mr Karp has been a member of the ARPC since 29 August 2008 (apart from the period 1 March until 30 June 2012), with his current term expiring on 30 September 2016. Mr Karp has been a member of the Audit and Compliance Committee since February 2014 and Chair of the Audit and Compliance Committee since 1 July 2015.

Mr Karp is a member of the Actuaries Institute's Professional Standards Committee and is a member of the Actuarial Standards Committee of the International Actuarial Association. Since December 2014, Mr Karp has been an independent external member of the Sustainability Committee of the Board of the National Disability Insurance Agency. Mr Karp is also a member of the Professional Standards Councils which are independent statutory bodies with powers to approve Professional Standards Schemes for professional associations which, inter alia, limit the civil liability of the professional associations' members.

In June 2008, Mr Karp retired as the Executive General Manager, Supervisory Support, at the Australian Prudential Regulation Authority (APRA). Prior to joining APRA, Mr Karp was with the Insurance and Superannuation Commission for nine years and was heavily involved in establishing APRA and its initial infrastructure.

Ms Marian Micalizzi
BBus (Acc), FCA, MAICD
Term: 01 July 2003 – 30 June 2016

Ms Micalizzi was appointed as an inaugural member of the Board on 1 July 2003. On 1 July 2015, Marian was reappointed for a further twelve month term, ending 30 June 2016, at which time she retired from the Board.

Ms Micalizzi is a chartered accountant, a company director and a consultant in both the public and private sectors. She has expertise in specialist corporate financial and advisory services including financial institutions' regulation and prudential supervision.

Ms Micalizzi is a Member of the SunSuper Audit, Risk and Compliance Committee, a position she has held since 2005. Ms Micalizzi is also a current member of the Management and Finance Committee of the Cancer Council Queensland, and a member of the Audit and Risk Committee of the National Disability Insurance Agency.

Ms Micalizzi was appointed as an inaugural member of the Board on 1 July 2003. She was appointed for a further twelve month term which expired on 30 June 2016. Ms Micalizzi chose not to seek reappointment.

On 1 July 2015, three new Members were appointed by the Minister to the ARPC Board, each for a term of three years. This increased Board member numbers to six, although still leaving one vacancy. Their details are as follows.

Mr John Peberdy
GAICD, ANZIIF (Sen Assoc), CIP.
Term: 1 July 2015 – 30 June 2018

Mr Peberdy has a proven track record as a strategic senior executive, having delivered improved business outcomes, in Australia and New Zealand, within Ansvar Insurance, a market leader in the care, community, faith and education insurance sector. Mr Peberdy has extensive experience delivering on business growth and profitability, initiating and driving change and optimising daily operations through effective leadership of a strong executive team. Mr Peberdy's expertise includes strategy and planning, business management, leadership and people management, risk management and general insurance.

Among his current directorship roles, Mr Peberdy is the Chairman, Stewards Insurance Services Pty Ltd Victoria; Deputy Chairman, Christian Super and Chairman Victorian Managed Insurance Authority.

Ms Janet Torney
B Ec (Hons) FAICD FASFA TFASFA
Term: 1 July 2015 – 30 June 2018

Ms Torney is a professional director and consultant with broad experience in both the financial services and engineering sectors. She has recognised expertise in governance, strategy, risk and change management and also in the investment industry.

Ms Torney's portfolio of non-executive director appointments includes her role as chairman of Whitehelm Capital, where she is chairman of its Advisory Investment Committee and a member of the Remuneration Committee. Ms Torney is the first external non-executive director of the Fire Brigades Employees' Credit Union, chairing its Strategy Committee. Other roles include being a non-executive director and Treasurer for Girl Guides Australia and particpation on advisory boards for the Association of Superannuation Funds Australia and Australian Cycling Executives.

Ms Torney runs two consulting businesses: JT Consult provides strategic governance, investment and risk management advice to the financial and professional services sectors, and E L Williams which provides bespoke engineering consulting services. Previously, she was the CEO for Qantas Superannuation and Practice Leader at Aon Investment Consulting.

Ms Torney is also a member of ARPC's Audit and Compliance Committee.

Ms Elaine Collins
BSc (Hons), MEc, FIAA, GAICD
Term: 1 July 2015 – 30 June 2018

Ms Collins was appointed on 1 July 2015 for a period of three years. Ms Collins has also been a member of the Audit and Compliance Committee since 1 July 2015.

Ms Collins is a fully qualified, experienced actuary, with a career spanning 25 years in the Insurance Industry in Australia, NZ, Hong Kong, Singapore and Papau New Guinea. She has served in senior roles with KPMG and as a Partner with Deloitte, carrying out Appointed Actuary roles for more than 10 years, with key expertise in policy formulation, capital allocation and strategic risk management.

Ms Collins is a non-executive Director of Zurich Insurance Australia Ltd (ZAIL), a member of its Risk, Compliance and Audit Committee and a member of its Reinsurance Committee. She is also a non-executive Director of the Motor Accident Insurance Board (MAIB) and Chair of its Audit Committee. Ms Collins is a Fellow of the Actuaries Institute and a Graduate of the Australian Institute of Company Directors. She is a member of the Actuaries Institute's Professional Standards Committee and a sessional lecturer at the University of New South Wales.

Board meetings

The Board convened six meetings during the 2015–16 financial year, comprising five meetings for general business and one two-day strategic planning workshop. Table 5.1 lists the number of meetings attended by each member during the reporting period.

Figure 5.1: Number of meetings attended by each Member of the Board

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Joan Fitzpatrick	6	6
Mr Tom Karp	6	6
Ms Marian Micalizzi	6	5
Ms Elaine Collins	6	6
Ms Janet Torney	6	6
Mr John Peberdy	6	6

AUDIT AND COMPLIANCE COMMITTEE

The Board established the Audit and Compliance Committee to support the administration and sound governance of ARPC. Section 17 of the PGPA Rule 2014, which relates to section 45(2) of the PGPA Act, establishes the requirement for all accountable authorities (the Board is ARPC's accountable authority) to have an audit committee, setting out the functions of that committee and its membership requirements.

As prescribed by the PGPA Rule, the Committee must comprise at least three appropriately qualified and skilled members. The Rule also states that the function of the Audit and Compliance Committee must include reviewing the appropriateness of the Board's:

- financial reporting;
- performance reporting;
- system of risk oversight and management; and
- system of internal controls.

  In addition, the Committee monitors ARPC's compliance with all statutory obligations and oversees the work of the internal auditors. The Committee also provides a general forum for communication between Members, ARPC executive, the internal auditor and the Australian National Audit Office (ANAO). Throughout 2015/16, PricewaterhouseCoopers (PwC) continued to provide internal audit services to ARPC.

During the reporting period, the Audit and Compliance Committee reviewed all reports received from our internal and external auditors. The Committee monitored the implementation of internal audit recommendations, and reviewed and accepted the ANAO terms of engagement. It also reviewed the financial statements to assist the Board in making the statements required by the Finance Minister's Orders (FMO).

The Committee members who held office during the reporting period were:

- Mr Tom Karp (Chair);
- Ms Janet Torney; and
- Ms Elaine Collins.

There were four Committee meetings held during the 2015–16 financial year, with the number of meetings attended by each Committee member listed in table 5.2.

Figure 5.2: Number of meetings attended by each member of the Audit and Compliance Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Tom Karp	4	4
Ms Janet Torney	4	4
Ms Elaine Collins	4	4

CORPORATE GOVERNANCE PRACTICES

The Board and ARPC's leadership team remain committed to maintaining the highest corporate governance standard. ARPC's corporate governance framework is fundamentally underpinned by the Board Charter (which was refreshed during the reporting period), the Audit and Compliance Committee Charter and the Enterprise Risk Management Framework (ERMF). These publications are supported by other ARPC policies and procedures in areas such as financial management, fraud control, compliance management, security management, project management and business continuity planning.

ARPC continues to monitor governance trends across a range of sources throughout government and the private sector. Although ARPC is not regulated by APRA, ARPC draws on prudential standards as a best practice benchmark. ARPC has also incorporated requirements from the PGPA Rule on Risk Management, which is not a mandatory obligation for ARPC.

For the purpose of the Annual Report, ARPC formally recognises and reports against the Australian Stock Exchange's (ASX's) Corporate Governance Principles and Recommendations. These eight principles are provided below, together with illustrative examples of how ARPC incorporates them into its operations.

Principle 1: Lay solid foundations for management and oversight

As recommended in this principle, the ARPC Board Charter documents the roles and responsibilities of the Board and its members, the role of the Board Secretary, and outlines what powers may be delegated to the CEO and senior management. The Board approves the financial delegations authority. Both the Board Charter and the delegations authority are periodically reviewed and approved by the Board. The Board has engaged an external consultant to undertake an independent evaluation of the operation of the Board. The final evaluation report is due in September 2016.

Senior management performance reviews were undertaken in 2015–16 by the CEO, in accordance with ARPC's documented Performance Management System. All ARPC Board Directors and senior managers hold appropriate qualifications and levels of experience.

Principle 2: Structure the Board to add value

All members of the Board, including the Chair, are independent and are not employees of ARPC. Under subsection 13(1) of the TI Act, members must be appointed by the Minister, who must give due consideration to the skills and qualifications, experience and good character of potential candidates for appointment. ARPC provides all Members with an annual allowance for professional development and memberships. Personal Interest Disclosure Statements are required to be updated at each Board meeting with an annual declaration also being provided. In compliance with the TI Act, the Chair of the Board cannot also be the CEO.

Principle 3: Act ethically and responsibly

The Board Charter documents a code of conduct for all members that is derived from the fiduciary duties imposed by statute and general law, plus more general ethical considerations. ARPC promotes the principles of equity and diversity, which provide a framework for its values and code of conduct. ARPC employees are bound by the code of conduct.

The Fraud Control Plan provides guidance on staff responsibility and accountability in maintaining ethical practices. The Board Members and all ARPC staff are '*officials*' under the PGPA Act; sections 25–19 state that all officials must fulfil the '*General Duties*' of officials. This includes acting in good faith and for a '*proper purpose*', which incorporates the principles of efficient, effective, ethical and economical resource management.

Principle 4: Safeguard integrity in corporate reporting

In accordance with the PGPA Act and the Board Charter, the Board has established an Audit and Compliance Committee which is comprised of at least three Board members. There is an Audit and Compliance Committee Charter, outlining the roles and responsibilities of Committee members. The Chair of the Committee cannot also be the Chair of the Board. Each year, the CEO and Chief Financial Officer (CFO) provide written certification to the Board regarding the integrity of ARPC's financial statements and reporting. These are audited annually by ANAO, granting assurance that ARPC's financial situation and operational results are in accordance with relevant accounting standards and PGPA Act requirements.

Principle 5: Make timely and balanced disclosure

In accordance with section 46 of the PGPA Act, the ARPC Annual Report is provided to the Minister and tabled in both Houses of Parliament by 31 October each year, before being published on the ARPC website. The report details management, operational and accountability information, including ARPC's financial statements. ARPC publishes a quarterly newsletter on its website to update insurers, stakeholders and the public on recent developments. During the reporting period, the CEO also published regular market updates to keep global stakeholders informed of emerging factors with the potential to impact on ARPC's future operations.

Principle 6: Respect the rights of security holders

ARPC is not listed on the ASX and therefore does not have security holders or shareholders. As a corporate Commonwealth entity that was established under its enabling legislation, ARPC has a Responsible Minister. However, it maintains open communications with key stakeholders, including our responsible Minister and Treasury portfolio officials, through regular meetings with cedants, reinsurers, industry associations and representatives from the Australian and state governments. ARPC also provides key stakeholders with regular newsletters and publishes relevant information on the ARPC website.

Principle 7: Recognise and manage risk

The Board remains responsible for risk oversight, with risk now established as a prioritised, standing agenda item at each Board meeting. The Audit and Compliance Committee meets at least three times each year, being responsible for monitoring audit issues identified and recorded on the audit issue register until they are fully remediated.

The ARPC Board and executive management engage in an annual review of ARPC's risk appetite and tolerance levels, adjusting as appropriate to emerging trends. The Board subsequently approves ARPC's Risk Management Strategy.

The ARPC risk register is reviewed at weekly senior management meetings and updated as required, but at least annually. Risk reports, highlighting ARPC top priority risks and associated management approaches, are provided to the Board at each meeting.

Principle 8: Remunerate fairly and responsibly

Remuneration for Board members is determined by the Remuneration Tribunal under Determination 2015/20. When determining remuneration packages for employees, consideration is given to salaries payable for similar positions within the public and private sectors. Annual increments are based on the outcomes of individual performance appraisals which are performed twice yearly as part of ARPC's Performance Management System.

RIGHT TO LEGAL ADVICE

As outlined in the Board Charter, Members have the right to seek independent advice, with prior approval of the Chair. This advice includes legal, accounting and financial advice, and will be at ARPC's expense. A copy of the advice must be provided to the Chair and circulated to the Board. The Audit and Compliance Committee Charter authorises the Committee to take whatever independent advice it considers necessary.

CONFIDENTIALITY AGREEMENTS

On commencement of employment with ARPC, all staff and Board members are required to sign a confidentiality agreement, which outlines their obligations relating to the non-disclosure of confidential information.

INDEMNITY AND INSURANCE OF DIRECTORS AND OFFICERS

ARPC has entered into a deed of indemnity with each Board Member. For 2015–16, ARPC maintained and paid premiums for insurance covering Members and senior managers against legal costs and other expenses that may be incurred in the performance of their duties. In compliance with section 23 of the PGPA Rule, ARPC does not insure any ARPC officials against liabilities relating to breach of duty under the PGPA Act. The amount paid for the Directors' and Officers' Indemnity Insurance in 2015–16 was $32,354 ($47,224 in 2014–15).

JUDICIAL AND ADMINISTRATIVE DECISIONS AND REVIEW

During the 2015–16 financial year, there were no judicial decisions or decisions of administrative tribunals that could significantly affect the operations of ARPC. There were two third party reports on ARPC's operations during the reporting period. The first was the annual ANAO report on ARPC's financial statements, which is published within this report. The other report was the 2015 Triennial Review by the Treasury. This review made several recommendations to expand the scope of the scheme and ensure its future financial sustainability. Details of the report findings can be found in Section 2 The Scheme.

MINISTERIAL DIRECTIONS

Under section 38 of the TI Act, the Minister responsible for ARPC may give written directions in relation to the performance of ARPC's functions and the exercise of its powers.

On 18 December 2015 the Hon. Kelly O'Dwyer, Minster for Small Business and Assistant Treasurer, gave a written direction to ARPC under the Terrorism Insurance Act – Premiums Direction 2015. This direction increased the premiums to insurers under the Scheme and also updated some of the postcode tiers. These changes commenced from 1 April 2016.

On 27 April 2016, the Hon. Kelly O'Dwyer gave a written direction to ARPC (Terrorism Insurance Act 2003 - Payments Direction 2016). In accordance with the direction, ARPC paid a $55 million fee (in exchange for the Australian Government guarantee) plus a $57.5 million dividend to the Government on 18 May 2016.

GENERAL POLICY ORDERS

Under section 22 of the PGPA Act, the Finance Minister may make an order (a Government Policy Order) specifying that a policy of the Australian Government is to apply in relation to one or more corporate Commonwealth entities. During the reporting period, there were no General Policy Orders (GPOs) applicable to ARPC.

RISK MANAGEMENT

Section 16 of the PGPA Act requires that the Board '*has a duty to establish and maintain systems relating to risk and control*.' Each year the Board holds a strategic workshop, at which ARPC's risk appetite and tolerance statements are reviewed for ongoing relevance. The Board has oversight of the Enterprise Risk Management Framework (ERMF), which is regularly reviewed. The Board also approves the Risk Management Strategy, which is a key component of the ERMF, outlining strategies and controls that senior management will establish and maintain to keep risks within tolerance levels.

ARPC uses a risk matrix to measure the likelihood and consequence of risks. These risks are tracked on a weekly basis and updated as appropriate for continued relevance or to record emerging risks identified by management and/or the Board.

ARPC's control environment for governance, business continuity and security management continues to be refined to address emerging risks.

INTERNAL AUDIT

ARPC's internal audit function is delivered under a charter approved by the Audit and Compliance Committee. During 2015-16, PwC continued to provide internal audit services to ARPC. A Strategic Internal Audit Plan (SIAP) was drafted to align closely with the risk register and risk appetite statement. The SIAP was approved by the Audit and Compliance Committee in June 2016, which formed the basis of the subsequent Internal Audit Annual Work Plan for 2016–17.

Since its engagement, PwC has worked closely with the CEO and senior management to identify and analyse business risks. Improvements identified through audits are agreed with management and then tracked to completion on the Audit Issue Register. Progress on action items are reported to the ARPC Audit and Compliance Committee. Internal audit has routine discussions with external audit in order to avoid any duplication of work and external audit has full access to internal audit work.

2015–16 INTERNAL AUDIT PROGRAM

The Annual Workplan for 2015–16 has been successfully completed, with all recommendations for improvement accepted by senior management and recorded and tracked on the Audit Issues register. The annual program also has flexibility to accommodate management requests for ad hoc audit reviews. There was one ad hoc review in 2015–16 (assets review). The following reviews were completed as scheduled in the 2015–16 Annual Work Plan:

- Cedant review process;
- Cyclical spot checks – Corporate Credit Cards and Travel Management; and
- Fraud risk management.

At the time of reporting, three other audits scheduled for 2015-16 were being finalised:

- Cloud assurance;
- Investments; and
- Premium rate change.

LEGISLATIVE COMPLIANCE

Staff were routinely provided with information relating to changes to legislation relevant to business operations during 2015–16. Routine information sessions are provided for staff to ensure they remain aware of all legislative obligations in relation to their daily operations within ARPC.

At the end of each financial year, all senior managers must sign a compliance attestation declaring that they are unaware of any breach against the following legislation:

- TI Act 2003;
- PGPA Act 2013;
- PGPA Rule 2014;
- *Privacy Act 1998;*
- *Work Health and Safety Act 2011;*
- *Freedom of Information Act 1982;* and
- *Public Interest Disclosure Act 2013;*

As part of ARPC's annual compliance processes, all staff now provide a written acknowledgement that they have read and understood their obligations within each key policy.

PUBLIC INTEREST DISCLOSURE

The *Public Interest Disclosure Act 2013* (PID Act) came into effect on 15 January 2014, promoting integrity and accountability in the Australian public sector by encouraging the disclosure of information about suspected wrongdoing. It also protected people who make disclosures and required agencies to take action.

In accordance with requirements under the PID Act, ARPC has created a PID Policy which has been made available on our webpage. During the reporting period, ARPC received no public interest disclosure notifications.

INFORMATION PUBLICATION SCHEME STATEMENT

In compliance with a requirement under the Freedom of Information Act, ARPC must publish a range of information on its website.

Under the Information Publication Scheme (IPS), we publish our organisational structures, functions, appointments, annual reports, consultation arrangements, submissions to Parliament, routinely requested information and details of our freedom of information officer.

For further details of this information please visit ARPC's IPS webpage at: www.arpc.gov.au/ips

BUSINESS CONTINUITY

In 2015–16, ARPC further refined its business continuity management framework to incorporate supplier obligations, an operations recovery plan and risk considerations for exercise planning. From 1 July 2016, ARPC staff had access to an alternative site which could be used in the event that the organisation was unable to operate out of our Sydney CBD office.

FRAUD PREVENTION AND CONTROL

Every two years, ARPC engages an external contractor to fully review the ARPC Fraud Control Plan. At its July 2014 meeting, ARPC's Audit and Compliance Committee endorsed the fully revised 2014–16 Fraud Control Plan, which was subsequently approved by the Board.

The Fraud Control Plan clearly allocates responsibilities for fraud risk management and control between the Audit and Compliance Committee, the CEO, ARPC management and staff. The Plan also outlines policy, legislation and governance requirements, and is framed around four key fraud control strategies:

- prevention;
- detection;
- response and monitoring; and
- reporting.

The 2014–16 Fraud Control Plan streamlined the previous categorisation of ARPC's fraud risks. It also complies with requirements under section 10 of the *Public Governance, Performance and Accountability Rule 2014,* which provides the minimum standard for the management of risk and incidents of fraud by accountable authorities (the Board). ARPC staff are provided with regular information sessions, in compliance with the Fraud Plan and the PGPA Rule.

In June 2016, we engaged an external consultant to undertake a Fraud Risk Assessment and to revise the ARPC Fraud Control Plan. Both documents were submitted to ARPC in August 2016.

CONSULTATION ARRANGEMENTS

People and organisations outside ARPC may assist in policy formulation or the administration of its enactments by making representations to the Responsible Minister or to ARPC.

In addition, our employees meet regularly with insurers, industry bodies and other interested parties outside the Australian Government for discussions on various matters. A summary of the stakeholder engagement activity undertaken by ARPC during the reporting period can be found in Chapter 1.

CONSULTANCIES

ARPC uses consultants to provide specialist skills to assist with key projects and tasks. During 2015–16, consultants were engaged (following the appropriate procurement processes outlined in ARPC's Procurement Policy), to assist in the following areas:

- strategic planning and stakeholder engagement facilitation;
- specialist technical projects and maintenance;
- capital management advice;
- retrocession advice;
- independent review/advice on legal, policy, and accounting issues; and
- workforce capability, work health and safety, recruitment and career management.

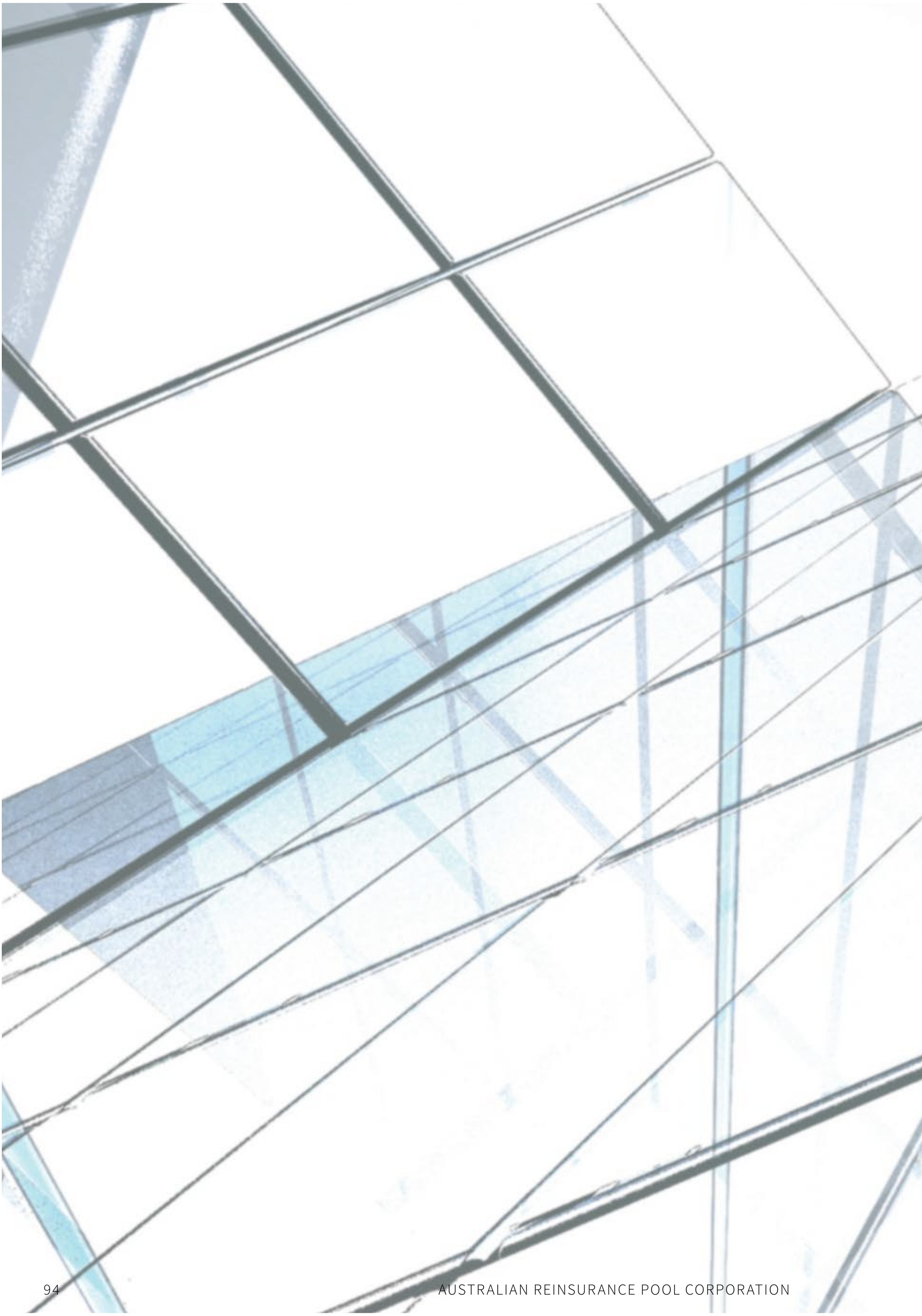
ECOLOGICALLY SUSTAINABLE DEVELOPMENT

ARPC moved to its current Sydney location on 14 December 2015. We continue to pursue initiatives designed to minimise waste, conserve energy and minimise water usage such as using electronic meeting papers, double sided printers and scanners and energy efficient lighting throughout the office. Our premises have a 4.5 star energy rating.

The following table lists the strategies used by the building owners and ARPC to assist in reducing our environmental footprint.

Figure 5.3: Steps taken to minimise energy, waste and water consumption

Theme	Sydney office
Energy efficiency	The Sydney office has achieved a 9% Greenhouse emissions reduction on the previous year
	Use of sensor lighting throughout the office such that lights are not left on.
	Improvements to air conditioning to upgrade energy efficiency.
	Shutting down computers outside of working hours.
	Purchasing and use of carbon neutral paper, which supports sustainable forest management in Australia and around the world.
Waste	Using double sided printing and scanning to reduce the volume of paper used.
	Recycling of paper, cardboard, print cartridges, plastics, glass E-waste and fluorescence tubes.
Water	The building has been accredited with a 4 star water rating including waterless urinals.



Financial statements

Financial statements

INDEPENDENT AUDITOR'S REPORT

To the Minister for Revenue and Financial Services

I have audited the accompanying annual financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2016, which comprise:

- Statement by the Accountable Authority, Chief Executive and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Schedule of Commitments; and
- Notes comprising a Summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements of the Australian Reinsurance Pool Corporation:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Australian Reinsurance Pool Corporation as at 30 June 2016 and its financial performance and cash flows for the year then ended.

My opinion should be read in conjunction with the rest of this report.

Member's Responsibility for the Financial Statements

The Members of the Australian Reinsurance Pool Corporation is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act and is also responsible for such internal control as the Members determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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Phone (02) 6203 7300 Fax (02) 6203 7777

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office

Jocelyn Ashford
Senior Executive Director

Delegate of the Auditor-General

Canberra
21 September 2016

Statement by the Accountable Authority, Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2016 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Reinsurance Pool Corporation will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the Members.

Signed for and on behalf of and in accordance with a resolution of the Members.

Signatures Supplied

J Fitzpatrick	**C Wallace**	**J Park**
Chair 21 September 2016	Chief Executive Officer 21 September 2016	Chief Financial Officer 21 September 2016

Statement of Comprehensive Income

for the period ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Premium revenue	5(a)	**126,172**	128,134
Outwards retrocession premium expense	5(a)	**(63,002)**	(71,249)
Net premium revenue		**63,170**	56,885
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(1,549)**	(1,035)
Underwriting result		**61,621**	55,850
Retrocession commission revenue	5(b)	**6,118**	6,956
Investment income	5(c)	**17,230**	21,337
Other income	5(d)	**150**	-
Other operating expenses	6(b)	**(6,622)**	(6,973)
Finance charges	6(a)	**(55,020)**	(55,004)
Operating result		**23,477**	22,166

Statement of Financial Position

as at 30 June 2016

		Notes	2016 $'000	2015 $'000
Assets				
	Current assets			
	Cash and cash equivalents	7	**2,280**	643
	Receivables	8	**44,205**	41,472
	Investments	9	**524,000**	559,500
	Deferred insurance assets	10(a)	**32,641**	32,071
	Other non-financial assets	11	**88**	3
	Total current assets		**603,214**	633,689
	Non-current assets			
	Property plant and equipment	12	**919**	278
	Intangibles	12	**492**	841
	Total non-current assets		**1,411**	1,119
Total assets			**604,625**	634,808
Liabilities				
	Current liabilities			
	Unearned liability	13(a)	**67,621**	63,967
	Payables	14	**32,132**	31,715
	Dividend payable	14(b)	**-**	-
	Employee provisions	15(a)	**495**	1,210
	Other provisions	15(b)	**281**	55
	Total current liabilities		**100,529**	96,947
	Non-current liabilities			
	Dividend payable	14(b)	**-**	-
	Employee provisions	15(a)	**263**	-
	Other provisions	15(b)	**156**	161
	Total non-current liabilities		**419**	161
Total liabilities			**100,948**	97,108
Net assets			**503,677**	537,700
Equity				
	Accumulated reserves		**-**	-
	Asset revaluation reserve		**60**	60
	Claims handling reserve		**24,036**	27,165
	Reserve for claims		**479,581**	510,475
Total equity			**503,677**	537,700

Statement of Changes in Equity

for the period ended 30 June 2016

	Notes	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
		2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance at 1 July		**-**	-	**60**	60	**27,165**	37,920	**510,475**	535,054	**537,700**	573,034
Income and expenses											
Net operating result		**23,477**	22,166	**-**	-	**-**	-	**-**	-	**23,477**	22,166
Total income and expenses		**23,477**	22,166	**-**	-	**-**	-	**-**	-	**23,477**	22,166
Asset revaluation reserve		**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Transfers between equity components											
Transfer to reserve for claims	1(j)	**(23,477)**	(22,166)	**-**	-	**-**	-	**-**	-	**(23,477)**	(22,166)
Claims handling reserve		**-**	-	**-**	-	**(3,129)**	(10,755)	**-**	-	**(3,129)**	(10,755)
Transfer to reserve for claims from accumulated reserves		**-**	-	**-**	-	**-**	-	**26,606**	32,921	**26,606**	32,921
Transactions with owners											
Distributions to owners		**-**	-	**-**	-	**-**	-	**(57,500)**	(57,500)	**(57,500)**	(57,500)
Closing balance at 30 June		-	-	**60**	60	**24,036**	27,165	**479,581**	510,475	**503,677**	537,700

Cash Flow Statement

for the period ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Operating activities			
Cash received			
Premiums		**134,856**	139,491
Commission		**6,712**	7,644
Interest		**20,505**	18,819
Rent		**150**	-
Total cash received		**162,223**	165,954
Cash used			
Retrocession payments		**65,168**	73,873
Creditors and employees		**63,653**	62,369
Net goods and services tax paid to ATO		**8,835**	8,875
Total cash used		**137,656**	145,117
Net cash from operating activities	16	**24,566**	20,837
Investing activities			
Cash received			
Proceeds from sale of investments (bonds)		**-**	-
Proceeds from maturities of term deposits		**992,500**	745,000
Total cash received		**992,500**	745,000
Cash used			
Purchase of property, plant and equipment		**858**	8
Purchase of intangibles		**71**	-
Purchase of investments (bonds)		**-**	-
Placement of term deposits		**957,000**	709,000
Total cash used		**957,929**	709,008
Net cash from investing activities		**34,571**	35,992
Financing activities			
Cash used			
Distributions to owners		**57,500**	57,500
Total cash used		**57,500**	57,500
Net cash (used by) financing activities		**(57,500)**	(57,500)
Net (decrease) in cash held		**1,637**	(671)
Cash and cash equivalents at the beginning of the reporting period		**643**	1,314
Cash and cash equivalents at the end of the reporting period	7	**2,280**	643

The above statement should be read in conjunction with the accompanying notes.

Schedule of Commitments

as at 30 June 2016

	2016	2015
	$'000	$'000
By Type		
Other commitments		
Service level agreements*	**2,045**	652
Software license agreement**	**82**	-
Software development agreement***	**336**	-
Operating leases****	**3,912**	1,167
Total other commitments	**6,375**	1,819
Commitments receivable	**(947)**	(156)
Net commitments by type	**5,428**	1,663
By maturity		
Service level agreements commitments		
One year or less	**885**	652
From one to five years	**1,160**	-
Total service level agreements commitments	**2,045**	652
Software licence agreement commitments		
One year or less	**60**	-
From one to five years	**22**	-
Total software licence agreement commitments	**82**	-
Software support and development agreement		
One year or less	**122**	-
From one to five years	**214**	-
Total software support and development agreement	**336**	-
Operating lease commitments		
One year or less	**755**	808
From one to five years	**1,881**	359
More than five years	**1,276**	-
Total operating lease commitments	**3,912**	1,167
Commitments receivable		
One year or less	**(234)**	(123)
From one to five years	**(445)**	(33)
More than five years	**(268)**	-
Total commitments receivable	**(947)**	(156)
Net commitments by maturity	**5,428**	1,663

The above schedule should be read in conjunction with the accompanying notes.

NB: Commitments are GST inclusive where relevant.

* Outstanding contractual payments for service level agreements.

** Outstanding contractual payments for software licence agreement.

*** Outstanding contractual payments for software support and development agreement.

**** Operating leases included are effectively non-cancellable and comprise:

Nature of lease	*Description of leasing agreement*
Lease for office	Lease payments are subject to the terms as detailed in the lease

Notes to and forming part of the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies

1.1 OBJECTIVES OF THE AUSTRALIAN REINSURANCE POOL CORPORATION

The Australian Reinsurance Pool Corporation (ARPC) is a statutory authority that was established as an independent entity wholly owned by the Commonwealth of Australia (Commonwealth) on 1 July 2003 by the *Terrorism Insurance Act 2003* (TI Act). ARPC operates on a not-for-profit basis.

ARPC was established to protect Australia from economic losses caused by terrorism catastrophe.

The role of ARPC is to administer the terrorism reinsurance scheme, by using our expertise to provide cost effective reinsurance to support the economic resilience of the nation. Specifically by providing primary insurers with reinsurance for commercial property and associated business interruption losses arising from a Declared Terrorist Incident (DTI). The TI Act operates by overriding terrorism exclusion clauses in eligible insurance contracts to the extent the losses excluded are eligible terrorism losses arising from a DTI.

ARPC has the power to do all things necessary in connection with the performance of its functions. The continued existence of ARPC in its present form and with its present programs is dependent on Government policy.

1.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are general purpose financial statements and are required by section 42 of *Public Governance, Performance and Accountability Act 2013* (PGPA Act 2013).

The financial statements have been prepared in accordance with:

a) PGPA Financial Reporting Rule 2015 (FRR) for reporting periods ending on or after 1 July 2015; and
b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance has been made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars with the exception of Executive remuneration, Members' remuneration, Auditor's remuneration and transactions with related entities.

Unless alternative treatment is specifically required by an accounting standard or the FRR, assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow to ARPC or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Assets and liabilities that are unrealised are reported in the Schedule of commitments or the Schedule of contingencies.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the Statement of Comprehensive Income when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the accounting policies listed in this note, ARPC has made the following estimate based on historical experience and other factors that have the most significant impact on the amounts recorded in the financial statements.

The unclosed business estimate required by note 1.5(b) for premium revenue was based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

The acquisition cost estimate is required to enable ARPC to determine the underwriting result. Costs that are incurred in obtaining and recording policies of insurance include legal, advertising, risk assessment, and other administrative costs. The estimate is based on actual costs incurred attributable to those activities.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.4 NEW AUSTRALIAN ACCOUNTING STANDARDS

Adoption of new Australian Accounting Standards Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. New and revised standards that were issued prior to the signing date, and are applicable to the current reporting period did not have a financial impact, and are not expected to have future financial impact on ARPC.

Future Australian Accounting Standard requirements

The following new standards were issued by the Australian Accounting Standards Board prior to the sign-off date, which may have a financial impact on the entity for future reporting periods:

Accounting Standard	Effective Date	Nature of Change
AASB 15 Revenue from Contracts with Customers	1 January 2018	Changes to Revenue from Contracts with Customers will change aspects of the accounting treatment for all revenue. These revisions will first apply in the 2018-19 financial statements, but will require retrospective adjustments for affected accounting treatments for the 2017-18 comparative disclosures.
AASB 9 Financial Instruments	1 January 2018	Changes to the Financial Instruments standard will impact on classification and measurement of financial assets and liabilities of the entity. These revisions are first effective in 2018-19, but will require retrospective adjustments for the 2017-18 comparative disclosures. ARPC's financial assets and liabilities will not be impacted by the changes proposed in AASB 9.
AASB 16 Leases	1 January 2019	Changes to the Leases standard will impact on the disclosure of operating leases by a lessee. These revisions will first apply in the 2019-20 financial statements, but will require retrospective adjustments for the 2018-19 comparative disclosures.
AASB 124 Related Party Disclosures	1 July 2016	This standard becomes effective for not-for-profit public sector entities from 1 July 2016. ARPC is a not-for-profit public sector entity. ARPC complies with this accounting standard currently and there will not be further impact.

Other new standards or revised standards that were issued prior to the sign-off date and are applicable to future reporting periods are not expected to have a future material financial impact on ARPC.

1.5 STATEMENT OF ACCOUNTING POLICIES

(a) Going concern

These financial statements have been prepared on the basis that ARPC is a going concern.

(b) Revenue

Premium revenue

Premium revenue comprises amounts charged to insurers excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue in the Statement of Comprehensive Income. Premiums are recognised as earned based on time from the date of attachment of risk. Premiums not received at reporting date and for the quarter ended 30 June 2016 are recognised as premiums receivable in the Statement of Financial Position.

The proportion of premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as unearned premium.

Unearned premiums are determined using the one eighth method; a fractional method of calculation of the balance. This method is driven by the assumption that the risk attached to the revenue ceded expires evenly over each quarter of the financial year.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

Retrocession commission revenue

Retrocession commission revenue is recognised in the Statement of Comprehensive Income in accordance with the pattern of retrocession expenses incurred.

Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 ***Financial instruments: Recognition and measurement.***

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

(c) Retrocession premium expense

Amounts paid to retrocessionaires are recorded as an outwards retrocession premium expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the contract in accordance with the expected pattern of the incidence of risk ceded.

(d) Unexpired risk liability

ARPC has compared the net present value of the expected future cash flows relating to future claims arising under general insurance contracts with the reported unearned premium liability.

There is no deficiency noted or recorded in these financial statements (2015: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(e) Outstanding claims liability

The financial statements have not included a provision for outstanding claims (2015: $0).

There were no declared terrorist incidents announced during the reporting period. Any such declaration must be announced by the Treasurer after consultation with the Attorney-General.

ARPC considers that there are no significant inherent uncertainties in respect of the liability estimate. Accordingly, ARPC has not applied a central estimate to the provision and has not, therefore, applied a prudential margin in respect of the provision.

In the event of a declared terrorist incident, an actuary will be engaged to independently assess the outstanding claims liability at balance date.

(f) Net claims incurred

There were no declared terrorist incidents during the reporting period. The total of the claims made from prior year declared terrorist incidents did not exceed the individual retentions of the claimants.

(g) Assets backing general insurance liabilities

With the exception of property, plant and equipment and intangibles, ARPC has determined that all assets are held to back general insurance liabilities and their accounting treatment is described below.

Financial assets

Financial assets are designated at fair value through the Statement of Comprehensive Income. Initial recognition is at cost in the Statement of Financial Position and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in the Statement of Comprehensive Income.

Details of fair value for the different types of financial assets are listed below.

Cash and cash equivalents

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of 3 months or less and subject to insignificant risk of changes in value. Cash is recognised at the nominal amount.

Investments

Fixed interest deposits are carried at face value of the amounts deposited. The carrying amounts are approximate to their fair value.

Receivables

Amounts due from policyholders and intermediaries are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that ARPC will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The discount is calculated using a risk free rate. The impairment charge is recognised in the Statement of Comprehensive Income.

(h) Deferred insurance assets

Deferred acquisition costs

Acquisition costs are incurred in obtaining and recording policies of insurance. They include legal, advertising, risk assessment and other administrative costs.

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents future benefits to the organisation where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount. These costs are amortised on the same basis as the earning pattern of the corresponding premium revenue.

Deferred retrocession premium

Deferred retrocession premiums are recognised as part of deferred insurance assets. The amortisation of deferred retrocession premiums is in accordance with the pattern of retrocession service received. The amount deferred represents the future economic benefit to be received from the retrocession contracts.

(i) Transactions with Government as owners

Pursuant to section 38(3)(a) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth designed to ensure that sections 35 and 36 do not result in a competitive advantage for the Corporation.-

Pursuant to section 38(3)(b) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth in the nature of dividends.

A direction was given by the Minister on 27 April 2016, to pay to the Commonwealth a sum of $55 million in the nature of a fee (s.38(3)(a)) and a sum of $57.5 million in the nature of a dividend (s.38(3)(b)).

ARPC has made payments to the Commonwealth during 2016 totalling $112.5 million (2015: $112.5 million).

(j) Reserves

The intention of the Government in establishing ARPC was that premiums would be used to fund a pool and to repay any loan required in the event that claims exceed the resources of the pool. The reserve for claims has been created to enable ARPC to build up the required pool.

(k) Employee benefits

Liabilities for shortterm employee benefits (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of the end of the reporting period are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Other long-term employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period.

Leave

The liability for employee benefits includes provision for annual leave, long service leave and purchased lease. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of ARPC is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that applied at the time the leave is taken, including ARPC's employer superannuation contribution rates and other employee benefits to the extent that the leave is likely to be taken during service rather than being paid out on termination. Leave provisions are disclosed as being settled in more than 12 months as ARPC does not expect all leave for all employees to be used wholly within 12 months of the end of the reporting period.

The liability for long service leave is the present value of employee entitlements based on the Australian Government shorthand method as per the FRR. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

Superannuation guarantee contributions are made by ARPC for employees and certain Members.

The default superannuation scheme is the Australian Super fund.

The liability for superannuation recognised as at 30 June 2016 represents the outstanding contributions for the final fortnight of the year.

(l) Leases

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

Lease incentives

i) Lease incentives taking the form of rent free periods are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expenses and reduction of the liability over the remaining term of the lease.

(m) Finance charges

All finance charges are expensed as incurred.

(n) Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or expires.

No financial assets or liabilities were derecognised in these financial statements (2015: $0).

(o) Financial Liabilities

Financial liabilities are classified as 'other financial liabilities' for the purposes of AASB 139 *Financial instruments: Recognition and measurement*.

Financial liabilities are recognised and derecognised at transaction date. They represent trade creditors and accruals and are recognised at the amounts at which they are expected to be settled. Financial liabilities are recognised to the extent that the goods or services have been received (irrespective of having been invoiced).

All payables are unsecured and are paid within credit terms.

(p) Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognised in the Statement of Financial Position but are reported in the relevant notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Contingent assets are reported when settlement is probable but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

(q) Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor authority's accounts immediately prior to the restructuring.

(r) Property, plant and equipment

Asset recognition and threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than $2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is also relevant to make good provisions in property leases taken up by ARPC where there exists an obligation to restore the property back to its original condition. These costs are included in the value of ARPC's leasehold improvements with a corresponding provision for the restoration obligation.

Revaluations

Fair values for each class of asset are determined as shown below:

Asset class	Fair value measured at:
Leasehold improvements	Depreciated replacement cost, adjusted for obsolescence
Plant & equipment	Depreciated replacement cost, adjusted for obsolescence

ARPC has assessed a three year update is appropriate to meet this requirement.

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Independent valuations are conducted with sufficient frequency to ensure that the carrying amount of assets do not differ materially from the asset's fair value at the reporting date.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through surplus and deficit. Revaluation decrements for a class of assets are recognised directly through surplus and deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount. Depreciation is recalculated over the remaining estimated useful life of the asset.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to ARPC using the straightline method of depreciation. Leasehold improvements are depreciated on a straightline basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2016	2015
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 8 years, from date of purchase	3 to 7 years, from date of purchase

ARPC has increased the maximum useful lives for plant and equipment to 8 years (2015: 7 years) to be consistent with the lease for Market Street, Sydney office accommodation.

Impairment

All assets were assessed for impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the fair market value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

(s) Intangibles

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the Statement of Financial Position and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred.

ARPC's intangibles comprise purchased and internally developed software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straightline basis over its anticipated useful life. The useful life of ARPC's software is 4 years (2015: 4 years).

All software assets were assessed for indications of impairment as at 30 June 2016.

(t) Taxation

Income Tax

ARPC is exempt from income tax by virtue of section 36 of the TI Act. ARPC is subject to Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO)
- for receivables and payables.

(u) Insurance

ARPC has insured its operating risks through Aon Risk Services Australia Limited. The insurance coverage includes Directors and Officers Liability, Public and Products Liability, Group Journey Injury Insurance, Corporate Travel Insurance, and Business Package Insurance. Workers compensation is insured through Comcare Australia.

Note 2: Events after the reporting period

ARPC is not aware of any significant events that have occurred since reporting date which warrant disclosure in these financial statements.

Note 3: Risk management

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS ISO 31000:2009). The Risk Management Strategy (RMS) identifies ARPC's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, which ARPC has identified it might face.

The senior management of ARPC have developed, implemented and maintain a sound and prudent RMS. The Board reviews the RMS at least annually and confirms there are systems in place to ensure compliance with legislative and prudential requirements.

The broad risk categories discussed below are:

- insurance risk
- operational risk
- capital risk
- financial risks considered in Note 4.

Within each of these categories, risks are evaluated before consideration of the impact of mitigating controls. The existence and effectiveness of such mitigating controls are then measured to ensure that residual risks are managed within risk tolerance.

Insurance risk

The following outlines how ARPC manages its insurance risks across the underwriting, claims and actuarial disciplines.

Underwriting risks

Section 8 of the TI Act renders terrorism exclusion clauses in all eligible insurance contracts ineffective in the event of a declared terrorist incident. Insurers have the right to reinsure this risk with ARPC.

Key aspects of the process established to mitigate risks include:

- ARPC's underwriting risk is limited to eligible terrorism losses arising in respect of eligible insurance contracts
- ARPC utilises a standard reinsurance agreement for underwriting and accepting insurance risks
- ARPC undertakes a cedant review program to verify the premium levels
- ARPC's exposure to concentrations of insurance risk is mitigated by the fact the TI Act applies to all eligible insurance contracts. The wording of the TI Act is designed to facilitate the diversification of ARPC's concentration risk both geographically and by type of risk.

Claims risk

Claims submitted to ARPC associated with the prior year DTI did not exceed the retentions of the reinsured. Therefore no claims expense has been incurred and no provision has been recognised for the payment of claims.

ARPC's mitigation strategies for the claims risks include:

- access to a Commonwealth guarantee for the due payment of money that may become payable by the Corporation to any person other than the Commonwealth. If a DTI occurs the Treasurer must specify a pro rata (percentage) reduction in claims to be paid out by insurers, if, in the absence of such a reduction percentage, the total amounts payable by the Commonwealth might exceed $10 billion
- the appointment of a claims manager and the development of claims procedures to ensure that all claims advices are captured and updated on a timely basis
- an agreement is in place with an actuarial firm
- the collection of annual aggregate exposure data from clients and the development of a loss estimation model to support advice given regarding a reduction percentage and the ultimate claims cost
- the mix of assets in which ARPC invests is regulated by section 59 of the PGPA Act. The management of investments is closely monitored to ensure the liquidity of funds match the cash needs of the entity
- ARPC maintains a claims handling reserve. The purpose of this reserve is to ensure there are sufficient monies set aside to allow ARPC to continue to operate in order to finalise any claims and reinsurance recoveries following cessation of the scheme or a significant DTI. The claims handling reserve as at 30 June 2016 is $24.04 million (2015: $27.17 million).

Retrocession counterparty risk

ARPC purchased retrocession to encourage capacity to return to the terrorism insurance market, control exposure to DTI losses and protect capital. ARPC's strategy in respect of the selection, approval and monitoring of retrocession arrangements is addressed by the following:

- treaty retrocession is placed in accordance with the requirements of ARPC's retrocession management strategy
- retrocession arrangements are regularly reassessed based on current exposure information
- exposure to the credit quality of the retrocessionaires is actively monitored.

Counterparty exposures and limits are reviewed by management on a regular basis. Retrocession is only placed with counterparties that have a credit rating of A and above and concentration risk is managed with reference to the counterparty limits. In the event of a DTI, ARPC will receive recognised collateral from non-APRA authorised participants in the program.

The following tables provide information about the quality of ARPC's credit risk exposure in respect of its retrocession program. The analysis classifies the counterparty risk according to counterparty Standard and Poors' credit ratings.

	Retrocession program counter party credit rating			
	AAA	**AA+**	**AA**	**AA-**
	2016	**2016**	**2016**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**-**	**49,995**	**46,250**	**620,750**
	A+	**A**	**A-**	**Total**
	2016	**2016**	**2016**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**1,133,855**	**700,575**	**348,575**	**2,900,000**
	Retrocession program counter party credit rating			
	AAA	AA+	AA	AA-
	2015	2015	2015	2015
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	-	35,000	42,099	635,447
	A+	A	A-	Total
	2015	2015	2015	2015
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	1,129,477	418,084	359,893	2,620,000

Operational risk

Operational risk is the risk of loss arising from system failure or inadequacies, human error or external events that do not relate to insurance, capital and financial risks.

ARPC manages these types of risks within the entity's enterprisewide risk management framework. ARPC's mitigation strategies for operational risk include:

- effective staff recruitment and retention policies
- the segregation of duties including access controls, delegated authorisation levels and accounting reconciliations controls
- maintenance and use of sophisticated information systems which provide up to date and reliable data to assist in managing the risk to which the business is exposed to at any point in time
- implementation and ongoing management of ARPC's Business Continuity Plan.

Capital risk

The following details ARPC's capital structure to cover claims from declared terrorist incidents:

- ARPC has access to its reserve for claims in cash and investments of $479 million (2015: $510 million)
- in the event of a DTI ARPC would be required to pay $350 million (2015: $400 million) before claiming on its retrocession program
- ARPC has access to a $2.9 billion retrocession program in excess of $350 million retention (2015: $2.620 billion retrocession program, extended to $2.925 billion using co-reinsurance, in excess of $400 million)
- ARPC has access to a Commonwealth guarantee for the due payment of money that may become payable by the Corporation to any person other than the Commonwealth. If a DTI occurs the Treasurer must specify a pro rata (percentage) reduction in claims to be paid out by insurers if, in the absence of such a reduction percentage, the total amounts payable by the Commonwealth might exceed $10 billion (2015: $10 billion).

Note 4: Financial risk management

ARPC is exposed to financial risks such as market risk, credit risk, and liquidity risk. It seeks to minimise potential adverse effects on its financial performance through its risk management framework. The key objectives are to ensure capital stability, accessibility and rate of return.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk:

- foreign currency risk (due to fluctuations in foreign exchange rates)
- interest rate risk (due to fluctuations in market interest rates)
- price risk (due to fluctuations in market prices).

1) Foreign currency risk

All foreign transactions are converted to Australian dollars at the exchange rate at the date of the transaction. There has been no foreign currency transactions recognised in the financial statements (2015: $0).

2) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial instruments with floating rate interest expose ARPC to cash flow interest rate risk, whereas fixed interest rate instruments expose ARPC to fair value interest rate risk.

ARPC manages the interest rate risk through its investment policy. The policy notes ARPC must comply with the requirements of the PGPA Act. Section 59(1)(b) of the PGPA Act provides that a corporate Commonwealth entity may invest surplus money:

(i) on deposit with a bank, including a deposit evidenced by a certificate of deposit; or

(ii) in securities of, or securities guaranteed by, the Commonwealth, a State or a Territory; or

(iii) in any other form of investment authorised by the Finance Minister in writing; or

(iv) in any other form of investment prescribed by the rules; or

(v) for a government business enterprise – in any other form of investment that is consistent with sound commercial practice.

ARPC actively manages the duration of the portfolio. The maturity profile of ARPC's interest bearing financial assets and hence its exposure to interest rate risk and the effective weighted average interest rate for interest bearing financial assets is listed below.

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
	Notes	2016 $'000	2016 $'000	2016 $'000	2016 $'000	2016 $'000
Interest bearing financial assets						
Cash and cash equivalents	7	**2,280**	**-**	**-**	**-**	**2,280**
Fixed term deposits	9	**-**	**524,000**	**-**	**-**	**524,000**
Government securities	9	**-**	**-**	**-**	**-**	**-**
Total		**2,280**	**524,000**	**-**	**-**	**526,280**
Weighted average interest rate		**1.62%**	**2.97%**	**-**	**-**	**2.96%**

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
	Notes	2015 $'000	2015 $'000	2015 $'000	2015 $'000	2015 $'000
Interest bearing financial assets						
Cash and cash equivalents	7	643	-	-	-	643
Fixed term deposits	9	-	559,500	-	-	559,500
Government securities	9	-	-	-	-	-
Total		643	559,500	-	-	560,143
Weighted average interest rate		1.59%	3.25%	-	-	3.24%

The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant.

	Movement in variable		**Financial impact**			
			Profit / (Loss)		Equity	
	2016 %	2015 %	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Interest rate movement - interest bearing	**+0.30**	+0.40	**1,579**	2,241	**1,579**	2,241
Financial assets	**-0.30**	-0.40	**(1,579)**	(2,241)	**(1,579)**	(2,241)

The method used to arrive at the possible risk of 30 basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the RBA as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

ARPC had considered the implied financial impact of the deemed 30 basis point change. It was agreed that this was reasonable and would be adopted by ARPC when reporting interest rate risk.

3) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar, financial instruments traded on the market.

The Department of Finance deemed a 30 basis point change to be reasonably possible and ARPC considered the implied financial impact of the deemed 30 basis point change. It was agreed that this was reasonable and would be adopted by ARPC when reporting price risk.

The premium charged for reinsurance is determined by Ministerial Direction. The premiums have been set having regard to the level of risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The following policies and procedures are in place to mitigate ARPC's credit risk:

- premium debtors in respect of credit risk is monitored monthly
- an approved investment policy document. Compliance with the policy is monitored and reported monthly.

The following table provides information regarding the aggregate credit risk exposure to ARPC in respect of financial assets. The table classifies the assets according to Standard and Poor's counterparty credit ratings.

		Credit Rating							
		AAA	**AA+**	**AA**	**AA-**	**A+**	**A-**	**Unrated**	**Total**
		2016	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ARPC									
Cash and cash equivalents	7	**2,280**	**-**	**-**	**-**	**-**	**-**	**-**	**2,280**
Fixed term deposits	9	**-**	**-**	**-**	**287,000**	**62,000**	**175,000**	**-**	**524,000**
Receivables	22	**-**	**-**	**-**	**-**	**-**	**-**	**44,209**	**44,209**
Total		**2,280**	**-**	**-**	**287,000**	**62,000**	**175,000**	**44,209**	**570,489**

		Credit Rating							
		AAA	AA+	AA	AA-	A+	A-	Unrated	Total
		2015	2015	2015	2015	2015	2015	2015	2015
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ARPC									
Cash and cash equivalents	7	643	-	-	-	-	-	-	643
Fixed term deposits	9	-	-	-	366,000	31,500	162,000	-	559,500
Receivables	22	-	-	-	-	-	-	41,448	41,448
Total		643	-	-	366,000	31,500	162,000	41,448	601,591

The carrying amount of the relevant asset classes in the Statement of Financial Position represents the maximum amount of credit exposure.

The following table provides information regarding the carrying value of ARPC's financial assets that have been impaired and the ageing of those that are past due but not impaired at the balance date.

		Neither past due nor impaired		Past due but not impaired 0 to 3 months		Total	
	Notes	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Financial assets							
Premium receivables	8	**35,880**	29,784	**43**	89	**35,923**	29,873
Commission receivables	8	**3,049**	3,051	**-**	-	**3,049**	3,051
Interest receivable	8	**5,237**	8,511	**-**	-	**5,237**	8,511
Other receivables	8	**-**	13	**-**	-	**-**	13
Total		**44,166**	41,359	**43**	89	**44,209**	41,448

Liquidity risk

ARPC's financial liabilities are payables. The exposure to liquidity risk is based on the notion that ARPC will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to the internal policies and procedures in place to ensure there are sufficient resources to meet its financial obligations. ARPC's liquidity risk is also mitigated through the strategy of short-term investments that provides for ready access to assets.

The table below summaries the maturity profile of ARPC's financial liabilities. All liabilities are measured on an undiscounted cash flow basis given their short term maturity.

		1 year or less		from 1 - 5 years		Total	
	Notes	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Financial liabilities							
Payables	14	**32,132**	31,715	-	-	**32,132**	31,715
Dividend payable	14(b)	**-**	-	**-**	-	**-**	-
Total		**32,132**	31,715	**-**	-	**32,132**	31,715

Note 5: Revenue

		2016 $'000	2015 $'000
(a)	**Net premium revenue**		
	Gross written premium	**129,846**	126,568
	Movement in unearned premium reserve	**(3,674)**	1,566
	Total premium revenue	**126,172**	128,134
	Outwards retrocession premium	**(63,002)**	(71,249)
	Net premium revenue	**63,170**	56,885
(b)	**Retrocession commission income**	**6,118**	6,956
	Total retrocession commission income	**6,118**	6,956
(c)	**Investment income**		
	Cash at bank	**744**	380
	Term deposits	**16,486**	20,957
	Total investment income	**17,230**	21,337
(d)	**Other Income**		
	Rental income	**150**	-
	Total other income	**150**	-
(e)	**Total revenue**	**149,670**	156,427

Note 6: Other operating expenses

			2016 $'000	2015 $'000
(a)	**Expenses by nature**			
	Employee expenses	6(c)	**3,170**	3,691
	Services from related entities		**726**	1,710
	Goods from external entities		**52**	27
	Services from external entities		**2,330**	1,122
	Operating lease rentals		**1,180**	734
	Depreciation and amortisation	6(d)	**637**	724
	Losess from asset sales	6(e)	**76**	-
	Finance charges		**55,020**	55,004
	Total expenses by nature		**63,191**	63,012
(b)	**Expenses by function**			
	Acquisition costs		**1,549**	1,035
	General and administration expenses1		**61,642**	61,977
	Total expenses by function		**63,191**	63,012
(c)	**Employee expenses**			
	Wages and salaries		**2,562**	2,507
	Superannuation		**403**	406
	Leave and other entitlements		**240**	270
	Separation and redundancies		**(35)**	508
	Total employee expenses		**3,170**	3,691
(d)	**Depreciation and Amortisation**			
	Depreciation			
	Property, plant and equipment		**18**	20
	Leasehold improvements		**199**	215
	Total depreciation		**217**	235
	Amortisation			
	Intangibles		**420**	489
	Total amortisation		**420**	489
	Total depreciation and amortisation		**637**	724
(e)	**Losses from asset sales**			
	Property, plant and equipment			
	Carrying value of assets sold or disposed		**76**	-
	Total losses from asset sales		**76**	-

1 Note 6(b) is reconciled to the Statement of Comprehensive Income

	2016 $'000	2015 $'000
General and administrative expenses	**61,642**	61,977
Less: Finance charges	**55,020**	55,004
Other operating expenses	**6,622**	6,973

Note 7: Cash and cash equivalents

	2016	2015
	$'000	$'000
Cash at bank	**2,280**	643
Total cash and cash equivalents	**2,280**	643

Cash and cash equivalents at balance date consist of at call deposits held with the Reserve Bank of Australia.

Note 8: Receivables

	2016	2015
	$'000	$'000
Premium receivable	**35,923**	29,873
Commission receivable	**3,049**	3,051
Interest receivable	**5,237**	8,511
Net GST Receivable/(Payable) from the Australian Taxation Office	**(4)**	24
Other receivables	**-**	13
Total receivables	**44,205**	41,472

All receivables are with entities external to ARPC. Credit terms are net 30 days (2015: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follows:		
Not overdue	**44,162**	41,383
Overdue by:		
Less than 30 days	**-**	-
30 to 60 days	**-**	54
60 to 90 days	**4**	-
More than 90 days	**39**	35
	44,205	41,472

Interest receivable

The interest rate ranges from 1.15% to 3.07% (2015: 1.40% to 3.55%) and the frequency of payment is monthly for cash accounts and on maturity for term deposits.

Note 9: Investments under s59 of the PGPA Act

	2016 $'000	2015 $'000
Term deposits	**524,000**	559,500
Total investments	**524,000**	559,500

Term deposits

Term deposits at balance date are held with the Australia and New Zealand Bank, National Australia Bank, Westpac Banking Corporation, Commonwealth Bank of Australia, Suncorp Metway Ltd, Bendigo Bank, Rural Bank and Bank of Queensland. These deposits earn an effective rate of interest of 2.97% (2015: 3.25%). Interest is payable on maturity for deposits with a term of 12 months or less. Where the term exceeds 12 months, interest is paid at 12 months with the balance on maturity. Terms are between 30 and 365 days (2015: 30 and 365 days).

Note 10: Deferred insurance assets

			2016 $'000	2015 $'000
(a)	**Deferred insurance assets as at 1 July**			
	Deferred retrocession premium	10(b)	**31,629**	31,546
	Deferred acquisition costs	10(c)	**1,012**	525
	Total deferred insurance assets		**32,641**	32,071
(b)	**Deferred retrocession premium as at 1 July**			
	Deferred retrocession premium as at 1 July		**31,546**	40,217
	Retrocession premium deferred		**31,629**	31,546
	Amortisation charged to expense		**(31,546)**	(40,217)
	Deferred retrocession premium as at 30 June		**31,629**	31,546
(c)	**Deferred acquisition costs as at 1 July**			
	Deferred acquisition costs as at 1 July		**525**	468
	Acquisition costs deferred		**1,012**	525
	Amortisation charged to expense		**(525)**	(468)
	Deferred acquisition costs as at 30 June		**1,012**	525

Note 11: Other non-financial assets

	2016 $'000	2015 $'000
Prepayments	**88**	3
Total other non-financial assets	**88**	3

All other non-financial assets are current assets.
No indicators of impairment were found for other non-financial assets (2015: Nil).

Note 12: Property, plant and equipment and intangibles

		2016	2015
		$'000	$'000
(a)	**Land and Buildings**		
	Leasehold improvements:		
	Fair value	**788**	1,095
	Accumulated depreciation	**(16)**	(844)
	Total leasehold improvements	**772**	251
	Total land and buildings	**772**	251

No indicators of impairment were found for leasehold improvements (2015: Nil)

No leasehold improvements are expected to be sold or disposed of within the next 12 months.

		2016	2015
(b)	**Property, Plant and Equipment**		
	Other property, plant and equipment:		
	Fair value	**184**	136
	Accumulated depreciation	**(37)**	(109)
	Total other property, plant and equipment	**147**	27

No indicators of impairment were found for property, plant and equipment (2015: Nil)

No property, plant and equipment is expected to be sold or disposed of within the next 12 months.

Revaluation of non-financial assets:

All revaluations were conducted in accordance with the revaluation policy stated in Note 1. The last revlauation was conducted by Preston Rowe Paterson, an independent qualified valuer, on 1 September 2014. The next revaluation will be completed for the year ending 30 June 2018.

		2016	2015
(c)	**Intangibles**		
	Computer software:		
	Purchased software	**2,661**	2,590
	Accumulated amortisation	**(2,169)**	(1,748)
	Total computer software	**492**	841
	Total intangibles	**492**	841

No indicators of impairment were found for intangible assets (2015: Nil)

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 12: Property, plant and equipment and intangibles continued

(d) Reconciliation of the opening and closing balances of property, plant and equipment and intangibles

	Leasehold improvements at fair value	Other property, plant and equipment at fair value	Computer software purchased	Total
	$'000	$'000	$'000	$'000
As at 1 July 2015				
Gross book value	**1,095**	**136**	**2,590**	**3,821**
Accumulated depreciation/amortisation and impairment	**(844)**	**(109)**	**(1,748)**	**(2,702)**
Net book value at 1 July 2015	**251**	**27**	**841**	**1,119**
Additions	**788**	**147**	**71**	**1,006**
Depreciation/amortisation expense	**(199)**	**(18)**	**(420)**	**(637)**
Asset disposal recognised in other comprehensive income	**(1,095)**	**(98)**	**-**	**(1,193)**
Accumulated depreciation/amortisation on asset disposed	**1,027**	**89**	**-**	**1,116**
Net book value at 30 June 2016	**772**	**147**	**492**	**1,411**
Net book value at 30 June 2016 is represented by:				
Gross book value	**788**	**184**	**2,661**	**3,633**
Accumulated depreciation/amortisation and impairment	**(16)**	**(37)**	**(2,169)**	**(2,222)**
	772	**147**	**492**	**1,411**
As at 1 July 2014				
Gross book value	1,090	133	2,590	3,813
Accumulated depreciation/amortisation and impairment	(629)	(89)	(1,259)	(1,978)
Net book value at 1 July 2014	461	44	1,330	1,835
Additions	5	3	-	8
Depreciation/amortisation expense	(215)	(20)	(489)	(724)
Asset disposal recognised in other comprehensive income	-	-	-	-
Accumulated depreciation on asset disposed	-	-	-	-
Net book value at 30 June 2015	251	27	841	1,119
Net book value at 30 June 2015 is represented by:				
Gross book value	1,095	136	2,590	3,821
Accumulated depreciation/amortisation and impairment	(844)	(109)	(1,748)	(2,702)
	251	27	841	1,119

Note 13: Unearned liability

			2016 $'000	2015 $'000
(a)	**Unearned liability**			
	Unearned premium liability	13(b)	**64,563**	60,890
	Unearned commission liability	13(c)	**3,058**	3,077
	Total unearned liability		**67,621**	63,967
(b)	**Unearned premium liability as at 1 July**		**60,890**	62,456
	Deferral of premiums on contracts written in the period		**64,563**	60,890
	Earning of premiums written in the previous periods		**(60,890)**	(62,456)
	Unearned premium liability as at 30 June		**64,563**	60,890
(c)	**Unearned commission liability as at 1 July**		**3,077**	3,930
	Deferral of commissions on contracts written in the period		**3,058**	3,077
	Earning of commissions written in the previous periods		**(3,077)**	(3,930)
	Unearned commission liability as at 30 June		**3,058**	3,077

Note 14: Payables

	2016 $'000	2015 $'000
Retrocessionaire creditors	**31,544**	31,289
Trade creditors	**16**	13
Net GST Payable/(Receivable) from the Australian Taxation Office	**-**	-
Accruals	**572**	407
Other payables	**-**	6
Total payables	**32,132**	31,715

Retrocessionaire creditors:
In accordance with ARPC's reinsurance treaty expiring 31 December 2016, the retrocession premium was paid quarterly in advance. Settlement is made net 30 days.

Trade creditors:
Settlement is made net 30 days.
All of ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

Note 15: Provisions

		2016 $'000	2015 $'000
(a)	**Employee provisions**		
	Salaries and wages	63	83
	Leave	461	600
	Superannuation	2	13
	Separations and redundancies	232	514
	Total employee provisions	**758**	1,210

Provisions noted in separations and redundancies relate to the separation of Canberra based staff due to the closure and relocation of the Canberra office to Sydney.

		2016 $'000	2015 $'000
	Current / non-current		
	Current	495	1,210
	Non-current	263	-
	Total employee provisions	**758**	1,210
(b)	**Other provisions**		
	Make good provision	122	54
	Lease incentive	89	162
	Other provisions	226	-
	Total other provisions	**437**	216
	Current / non-current		
	Current	281	55
	Non-current	156	161
	Total other provisions	**437**	216

Lease Incentive:

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and a reduction of the lease liability over the lease term.

The lease end date for the Pitt Street, Sydney office was 29 February 2016, and for the Canberra office it is 31 December 2016. The lease end date for the Market Street, Sydney office is 30 November 2023.

The financial statements have not included a provision for outstanding claims (2015: nil).

(c) **Reconciliation of provisions**

	Employee provisions $'000	Provision for make good $'000	Lease incentive $'000	Other provisions $'000	Total $'000
Carrying amount at beginning of period	1,210	54	162	-	1,426
Additional provisions made	7,181	121	34	226	7,562
Amounts used	(7,633)	(55)	(107)	-	(7,795)
Unwinding of discount	-	2	-	-	2
Amount owing at end of period	**758**	**122**	**89**	**226**	**1,195**

Note 16: Cash flow reconciliation

	2016 $'000	2015 $'000
Reconciliation of cash and cash equivalents as per Report cash and cash equivalents as per:		
Cash Flow Statement	**2,280**	643
Balance Sheet	**2,280**	643
Difference	**-**	-
Reconciliation of operating result to net cash from		
Operating result	**23,477**	22,166
Depreciation/amortisation expense	**637**	724
Asset write-off	**-**	-
(Increase)/decrease in receivables	**(2,733)**	538
(Increase)/decrease in other non-financial assets	**(86)**	33
(Increase)/decrease in deferred insurance assets	**(570)**	8,614
Increase/(decrease) in unearned liability	**3,654**	(2,419)
Increase/(decrease) in payables	**417**	(9,384)
Increase/(decrease) in provisions	**(231)**	565
Net cash from / (used by) operating activities	**24,566**	20,837

Note 17: Contingent assets and liabilities

	Guarantees		Indemnities		Claims for damages or costs		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Contingent assets								
Balance from previous period	**-**	-	**-**	-	**-**	-	**-**	-
New contingent assets recognised	**-**	-	**-**	-	**-**	-	**-**	-
Re-measurement	**-**	-	**-**	-	**-**	-	**-**	-
Assets realised	**-**	-	**-**	-	**-**	-	**-**	-
Rights expired	**-**	-	**-**	-	**-**	-	**-**	-
Total contingent assets	**-**	-	**-**	-	**-**	-	**-**	-
Contingent liabilities								
Balance from previous period	**-**	-	**-**	-	**-**	40	**-**	40
New contingent liabilities recognised	**-**	-	**-**	-	**-**	-	**-**	-
Re-measurement	**-**	-	**-**	-	**-**	-	**-**	-
Liabilities realised	**-**	-	**-**	-	**-**	-	**-**	-
Obligations expired	**-**	-	**-**	-	**-**	(40)	**-**	(40)
Total contingent liabilities	**-**	-	**-**	-	**-**	-	**-**	-
Net contingent assets/(liabilities)	**-**	-	**-**	-	**-**	-	**-**	-

Quantifiable Contingencies

The Schedule of Contingencies reports nil contingent liabilities disclosure in respect to claims for damages or costs (2015: nil).

Unquantifiable Contingencies

ARPC had no unquantifiable contingencies during the reporting period.

Significant Remote Contingencies

ARPC had no significant remote contingencies durign the reporting

Note 18: Average staffing levels

	2016	2015
The average staffing levels for ARPC during the year were:	**16**	19

Note 19: Senior management personnel remuneration

	2016	2015
	$	$
Short-term employee benefits:		
Salary	**1,399,192**	1,195,862
Other allowances	**50,998**	-
Total short-term employee benefits	**1,450,190**	1,195,862
Post-employment benefits		
Superannuation	**213,056**	180,453
Total post-employment benefits	**213,056**	180,453
Other long-term benefits		
Long-service leave	**49,440**	115,039
Annual leave accrued	**181,749**	174,508
Total other long-term benefits	**231,189**	289,547
Termination benefits		
Voluntary redundancy payments	**190,429**	-
Total termination benefits	**190,429**	-
Total senior executive remuneration expense	**2,084,864**	1,665,862

The total number of senior management personnel included in the above table is 14 (2015: 10).
The total number of senior management positions included in the above table is 11 (2015: 10).
The difference between the number of roles and the number of personnel arises in circumstances where more than one person occupies a role during part of the financial year.

Notes:
1. Note 19 was prepared on an accrual basis, except for voluntary redundancy payments.
2. Note 19 was prepared using definitions in accordance with Section 27 of the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 which combines Senior Executives and Directors' remuneration.

Note 20: Auditor's remuneration

	2016	2015
	$	$
The cost of financial statement audit services provided to ARPC was:	**131,750**	128,750

The financial statement audit services are provided to ARPC by the Auditor-General, sub-contracted to KPMG. No other services were provided by the Auditor-General during the reporting period.
KPMG provided no other services to ARPC in 2015-16 (2014-15: $5,500).

Note 21: Related party disclosures

Members

The names of persons who were Members of ARPC during the financial year were:
Ms J Fitzpatrick, Ms E Collins, Mr J Peberdy, Mr T Karp, Ms M Micalizzi and Ms J Torney.

Changes in membership during the year:
Ms J Fitzpatrick's term expired on 31 December 2015 and she was reappointed effective 1 January 2016.
Mr T Karp's term expired on 30 June 2016 and he was reappointed effective 1 July 2016.
Ms M Micalizzi's term expired on 30 June 2016.
Ms E Collins was appointed on 1 July 2015.
Mr J Peberdy was appointed on 1 July 2015.
Ms J Torney was appointed on 1 July 2015.

Information on remuneration of Members is disclosed in Note 19.

Transactions with Members and Member related entities

ARPC has not entered into any contract with Members or their related entities (2015: $2,761).

Transactions with related entities

ARPC was involved in the following transactions with related entities:

	2016 $	2015 $
Purchase of goods and services:		
The Treasury	350,815	400,299
Australian National Audit Office	212,575	70,813
Australian Government Solicitor	119,380	71,332
Geoscience Australia	34,000	548,000
Australian Public Service Commission	5,750	1,675
Attorney General's Department	3,750	206,958
Artbank	405	15,382
	726,675	1,314,459

The above transactions were made on terms equivalent to those that prevail on arms length transactions.

Controlling entity

ARPC was established by section 9 of the TI Act.

The ultimate controlling entity is the Australian Government. ARPC is only authorised to transact business and carry out functions as provided in the TI Act or as approved or directed by the Minister. ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

Note 22: Financial instruments

		Notes	2016 $'000	2015 $'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**2,280**	643
	Loans and receivables financial assets			
	Receivables (gross)	8	**44,209**	41,448
	Fair value through profit and loss			
	Fixed term deposits	9	**524,000**	559,500
	Carrying amount of financial assets		**570,489**	601,591
	Financial liabilities			
	At amortised cost			
	Payables	14	**32,132**	31,715
	Carrying amount of financial liabilities		**32,133**	31,715
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(c)	**17,230**	21,337
	Net gain/(loss) from financial assets		**17,230**	21,337

(c)

	Notes	**Carrying amount 2016 $'000**	**Fair value 2016 $'000**	Carrying amount 2015 $'000	Fair value 2015 $'000
Financial assets					
Cash and cash equivalents	7	**2,280**	**2,280**	643	643
Receivables (gross)	8	**44,209**	**44,209**	41,448	41,448
Fixed term deposits *	9	**524,000**	**524,000**	559,500	559,500
Total financial assets		**570,489**	**570,489**	601,591	601,591
Financial liabilities					
Payables	14	**32,132**	**32,132**	31,715	31,715
Total financial liabilities		**32,132**	**32,132**	31,715	31,715

* These financial instruments are classified as level 2 in the fair value hierarchy.

Level 1 - fair values measured using quoted prices (unadjusted) in active markets for identical instruments.

Level 2 - fair values measured using directly or indirectly observable inputs, other than those included in level 1.

Level 3 - fair values measured using inputs that are not based on observable market data.

PART 07

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ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
AGA	Australian Government Actuary
AGD	Attorney General's Department
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
AMB	A.M. BEST
APRA	Australia Prudential Regulation Authority
APSC	Australian Public Service Commission
ARPC	Australian Reinsurance Pool Corporation
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
CAE	Chief Audit Executive
CBD	Central business district
CEO	Chief Executive Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis
COO	Chief Operating Officer
CY	Calendar year
DTI	Declared terrorist incident
FMO	Finance Minister's Orders
FOI Act	Freedom of Information Act 1982
GA	Geoscience Australia
GST	Goods and services tax
GWP	Gross written premium
HR	Human resources
ILS	Integrated Leadership System
IPS	Information Publication Scheme
OECD	Organisation for Economic Co-operation and Development
PGPA	Public Governance, Performance and Accountability Act 2013

PID	Public Interest Disclosure Act 2013
PMS	Performance Management System
RBA	Reserve Bank of Australia
RISe	Reinsurance information system, ARPC's client information management system
RMS	Risk management strategy
SBS	Special Broadcasting Service
S&P	Standard and Poor's
SES	Senior executive staff
TI Act	Terrorism Insurance Act 2003
WHS Act	Work Health and Safety Act 2011
WHS	Work Health and Safety

GLOSSARY

Aggregate sums insured	The total of all a cedant's property sums in a reporting zone, such as ARPC's tiers.
Calendar year	Refers to 1 January to 31 December of a particular year.
Capacity	The ability of an insurer, reinsurer, syndicate or market to absorb risk.
Captive insurer	An insurance company that is wholly owned by one or more entities (parent organisations), and whose main purpose is insuring the parent company's risks.
Deductible	The loss a cedant assumes for its own account in non-proportional reinsurance.
Financial year	Refers to 1 July to 30 June of a particular year.
Cedant	An insurer that transfers all or part of a risk to a reinsurer.
Reinsurance	Reinsurance is insurance that is purchased by an insurance company from one or other insurance companies (the reinsurer) directly or through a broker as a means of risk management.
Retention	The amount retained by a reinsured after placing reinsurance.
Retrocession	A reinsurer that accepts retrocession business.
Triennial review	A review which examines the need for the TI Act to continue to operate and occurs every three years.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.

Source: Glossary of reinsurance terms, The Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

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